

UNICEF Audit Advisory Committee
Annual Report for 2010
(24 May 2011)

The UNICEF Audit Advisory Committee (AAC) was established and functions in accordance with its Charter, issued in June 2009.

Mandate

The AAC is an independent body that advises the Executive Director and informs the Executive Board on the conduct of management responsibilities, guided by the United Nations Staff Regulations and Rules, the UNICEF Financial Regulations and Rules and applicable directives, policies, and procedures. The responsibilities of the AAC cover the independent review of the functioning of the UNICEF oversight system; the review of UNICEF accounting and reporting practices and systems of control; the review of internal and external audit matters; and the review of financial management and reporting.

Reporting

According to its Charter, the AAC is required to submit an annual report on its substantive work and performance to the Executive Director and to the Executive Board. This is the third such report.

Activity

The following were members of the AAC in 2010:

Mr. Adnan Khan, Chairperson
Ms. Angela Palacio
Mr. David Kanja
Mr. Daniel Nelson
Ms. Saraswathi Menon

The AAC met three times, in February, June and October, for one and a half days on each occasion. Mr. David Kanja did not attend any meeting during 2010 and resigned on 5 February 2010. Ms. Saraswathi Menon did not attend the second meeting of 2010. All other members attended all the meetings. At its October 2010 meeting, the AAC was informed that the Executive Director had appointed Mr. Charles Boamah as a new member of the AAC.

The AAC met the Executive Director once during its October meeting. It interacted regularly with Mr. Omar Abdi, Deputy Executive Director of UNICEF, and with other senior managers as needed. After each of its meetings, the AAC issued minutes of its deliberations to the Executive Director.

Key issues and advice

The main considerations of the AAC and its recommendations were:

Progress on matters raised in the 2009 annual report of the Audit Advisory Committee

In 2010, UNICEF:

- Developed its standard operating procedures (SOPs) to implement its policy on disclosure of internal audit reports to Member States.
- Decided to use existing infrastructure such as the Global Leadership Team, Regional Management Team, and Country Management Team, to provide corporate risk governance and to direct risk management activities.
- Prepared a risk assessment report on the risks related to implementation of the International Public Sector Accounting System (IPSAS). While an audit on preparedness for compliance with IPSAS did not take place, the Office of Internal Audit (OIA) provided advisory services by issuing a risk assessment report.

The AAC:

- Reiterated its request to receive all management letters issued by the external auditor.
- Continued to follow up on audit reports that in its opinion posed significant risks to the organization.
- Completed its own self-assessment.

Details on some of these issues are described in the following sections.

Follow-up of decisions of the Executive Board

As requested, UNICEF prepared the SOPs for implementing its policy on disclosure of internal audit reports. Reportedly, requests were made for viewing 16 reports. The AAC was assured that the requests were met in accordance with the SOPs.

The AAC also kept under review the issue of sustainable implementation of internal audit recommendations at country office level, and that of addressing systemic weaknesses, taking into account the analyses of underlying causes. The AAC noted that OIA planned to review this further in its efforts to reduce recurrent recommendations on similar control issues over time.

Risk and control

The AAC regularly reviewed the progress made in the implementation of Enterprise Risk Management (ERM) in UNICEF. The ERM framework was adopted by UNICEF in 2009 through Executive Directive CF/EXD/2009-006. The AAC remained concerned with the progress made in the implementation of the framework, namely in the following areas:

- Lack of management ‘ownership’ of ERM: the AAC noted that without management’s explicit and clear endorsement and support, the initiative’s success could be at risk.
- Insufficient management and operational priority given to ERM: the AAC considered this equally synonymous with greater risk to the success of the initiative.
- The role of OIA in implementation of ERM: the AAC was concerned that Internal Audit’s role must remain that of a facilitator, not a decision maker in operational risk management.

To enhance management ‘ownership’ of ERM, AAC encouraged UNICEF to establish a Senior Staff Risk Management Committee, as required by CF/EXD/2009-006. The AAC emphasized the need to give ERM priority among many change initiatives under way. The AAC cautioned against ERM becoming an OIA-driven initiative, thus risking its sustainability and compromising OIA’s independence.

During 2010, the Executive Director assured the AAC that he considers ERM a priority. The Executive Director sought assistance of OIA for furthering ERM in UNICEF within the scope of advisory services. Effective March 2010, resources for a full-time P5 assistance in OIA was allocated to support the implementation of ERM.

At its October 2010 meeting, the AAC was informed that instead of establishing a separate Senior Staff Risk Management Committee, as required by CF/EXD/2009-006, the Executive Director had decided to use the existing infrastructure, such as the Global Leadership Team, Regional Management Team and Country Management Team, to provide corporate risk governance and to direct risk management activities. The AAC, while appreciating these steps as a useful way forward, agreed to keep under review:

- OIA’s involvement in supporting the ERM implementation with a view to ensuring that it remains within the guidance issued by the Institute of Internal Auditors on this subject.
- Efficacy of the proposed infrastructure for corporate risk governance.

At each 2010 meeting, the AAC discussed with the Executive Director and/or senior managers emerging risks. Some key risk areas identified were related to the response of UNICEF to the earthquake in Haiti and to the floods in Pakistan, implementing IPSAS and the One ERP/VISION project, working with implementing partners in complex emergencies, and mobilizing sufficient resources and attracting and retaining quality staff.

Financial reporting

At its June meeting, the AAC was informed that the UNICEF Financial Report and Statements for the biennium 2008-2009 had been issued to the Chairman of the Board of Auditors and to the Advisory Committee on Administrative and Budgetary Questions on 31 March 2010, and that the report of the Board of Auditors was expected to be issued in

August or September 2010. The AAC was of the view that, to comply with its terms of reference, it should be reviewing this information at an earlier stage.

At its October 2010 meeting, the AAC reviewed the Report of the Board of Auditors on the Financial Report and Audited Financial Statements for the biennium ending 31 December 2009, and management's response to the recommendations made in that report. The AAC reiterated its request to receive all management letters issued by the external auditors as a matter of routine and agreed to monitor the implementation of the recommendations of the external auditor through quarterly progress reports.

The AAC kept under review progress made by UNICEF towards full implementation of IPSAS by January 2012. At its January 2010 meeting, the AAC was informed that the primary challenges and risks that could cause delays included: the identification of roles and responsibilities throughout the organization ("business owners/drivers"); the need to instill a high level of ownership and commitment in "business owners" to drive necessary changes; keeping the core IPSAS team together; and the possibility of delays in One-ERP/VISION, which would necessitate a corresponding delay in being IPSAS-compliant. The Executive Director in his October 2010 meeting with the AAC had also identified non-implementation of IPSAS/VISION by January 2012 as a key risk for UNICEF.

The AAC was of the view that external and internal audit, through assurance and advisory work, could assist in UNICEF achieving its objectives in this regard. It noted that the audit on preparedness of compliance with IPSAS, originally planned for 2008, had been deferred twice. In the meantime, however, OIA had provided advisory services by issuing a risk assessment report in March 2010. It further noted that since then an independent risk assessment of the projects (IPSAS/VISION) had been conducted by a leading Information Technology (IT) research and advisory firm, but that the final report had focused on IT risks to VISION only. The AAC encouraged OIA to undertake assurance work on IPSAS/VISION as early as possible to add value and proactively contribute to these major initiatives. The AAC looks forward to obtaining comprehensive information on the consolidated budget and expenditures for the implementation of the IPSAS/VISION projects.

Oversight services

Internal Audit

The AAC reviewed, rendered guidance for, and endorsed the internal audit global audit plan for 2010. It expressed concern over the adequacy of IT audit coverage in the workplan and reviewed the IT risk assessment. It agreed to review the IT audit strategy in the context of the audit work plan for 2011. It also reviewed proposed changes to the audit cycle policy for country offices to make it more risk-based, with less rigidity in adherence to cyclical coverage. The AAC looked forward to discussing the audit cycle policy more in depth in the context of audit work plan for 2011.

The AAC held discussions with the Director of the Office of Internal Audit on the basis of quarterly reports on the performance against the audit plan. It was noted that on account of staff deployment for audits of the Haiti and Pakistan emergencies, some of the planned audit work would not be carried out or completed within 2010. It was agreed that in the future, the OIA workplan would be designed to better accommodate a degree of unplanned audit work that could arise during the course of the year.

The AAC discussed some specific audit reports issued by OIA during the period. Follow-up discussions were held with Mr. Omar Abdi, Deputy Executive Director, as well as with individual managers responsible for acting on the recommendations made by Internal Audit. In particular, the AAC followed up on the implementation of recommendations contained in the:

- Audit Report on the Processes for Promoting Ethics and UNICEF values in Country Offices. The AAC noted that an action plan had been submitted and four out of eight recommendations had been closed. The four open recommendations should be closed as soon as possible.
- Audit Report on SAP Baseline Security Controls. The AAC was assured that all outstanding recommendations would be closed by the end of 2010.
- Audit Report on Management of the Information and Communication Technology (ICT) Function in Country Offices. The Committee was advised that an action plan had been prepared and the recommendations would be addressed in a timely manner.
- Audit Report on Management of Non-thematic Other Resource (OR) Contributions. The AAC noted that work was in hand to close the one open recommendation pending since the issuance of the report in December 2007.
- Audit Report on the Management of Evaluations in Country Offices. The AAC noted that additional action by the Office of Evaluation would be beneficial to the impact of future evaluation reports.

OIA's Charter

The AAC reviewed proposed amendments to the Charter of OIA in line with new accountabilities for the conduct of investigations and for consistency with ERM framework and language. It offered some additional comments for further refinement of the Charter, including how to ensure the Charter's adherence to best practices within the United Nations and elsewhere in accordance with the Institute of Internal Auditors standards. With these adjustments, the AAC looked forward to endorsing the OIA Charter in 2011.

Investigation

The AAC noted the progress made on cases under investigation. It welcomed the introduction of a new database for managing cases, which would allow for better tracking of allegations and conducting analyses. It noted that depending on the nature of the allegation received, regional or country office staff were periodically called upon to assist

in obtaining statements and evidence, under the guidance of an OIA investigator based in New York. The timeliness and quality of such 'remote investigations' was not ideal and there was a recognition on the part of OIA that additional resources would be required to allow for more on-site visits from OIA investigative staff. It emphasized the importance of identifying systemic control failures that arise from investigations conducted in order to enable management take corrective actions on systemic issues.

The AAC was advised that the draft investigation guidelines were still under preparation. It reiterated the AAC's advice that the guidelines should reflect that investigation reports are to be addressed to the Executive Director, in order to properly reflect OIA accountabilities and reporting lines. The AAC encouraged that the guidelines be finalized at the earliest possible time.

The AAC advised the Executive Director that it was an opportune time to conduct a peer review of the investigation function of OIA.

Evaluation

The AAC discussed evaluation activities with the Director of the Evaluation Office, and it welcomed the intention to add two external members to the UNICEF Evaluation Committee.

The AAC reviewed the Audit Report on the Management of Evaluations in Country Offices. Of particular concern to the AAC was the low quality of country office evaluation reports, as noted in the audit report. The AAC felt that it would be beneficial for the Evaluation Committee to consider how to address the issue of low output of satisfactory country-level evaluations in the context of the decentralized evaluation function of UNICEF, taking into account the human and financial resources necessary to bring about change within such a structure, and the need to preserve an adequate level of independence in the conduct of evaluations.

The AAC was advised that, following a review of the Programme Performance Assessment (PPA) Pilot, which had been conducted jointly by OIA and the Evaluation Office, it had been decided not to continue with the conduct of PPAs. Instead, OIA would focus on auditing programme performance in the normal course of its audits, and the Evaluation Office would focus on assessing the contribution of UNICE to results at the country level. The AAC supported this approach.

The AAC advised the Executive Director that it was an opportune time to have a peer review conducted of the evaluation function.

Ethics

The AAC discussed the work of the ethics function in UNICEF with the Principal Advisor, Ethics. It recognized the work accomplished since the establishment of the Ethics Office in December 2007 and the challenging workload. In the context of the

Audit Report on the Processes for Promoting Ethics and UNICEF values, the AAC noted that a considerable portion of the time of the Ethics Office was spent on managing the financial disclosure system and advocated a more holistic approach to strengthening ethics in UNICEF.

External Audit

While the AAC did not interact with the External Auditor in 2010, it looked forward to an enhanced engagement with that office in 2011.

Audit Advisory Committee matters

The AAC conducted its own self-assessment based on a standard questionnaire developed by the National Audit Office of the United Kingdom. While keeping in mind that the questionnaire was not entirely applicable in the United Nations context, the AAC identified three areas for improvement: its relationship with the Executive Board; its relationship with the external auditors; and dealing with financial reporting matters. The AAC advised the Executive Director that it will be proposing amendments to its Charter in light of this self-assessment and good practices in audit committees. The AAC noted that the Joint Inspection Unit had issued a report “The Audit Function in the United Nations System” (JIU/REP/2010/5) with recommendations on the audit function and audit committee arrangements. The AAC would also take into account those JIU recommendations as input to its own consideration of best practices.

The AAC advised management on the procedure that may be adopted in filling vacant AAC positions and it recommended to management an appropriate succession planning within the AAC. The AAC feels that further progress on these matters is necessary, so that the risks of excessive turnover are reduced and that an appropriate continuity in AAC membership is established. The AAC looks forward to management’s taking on board these recommendations. The AAC will continue to offer its advice and counsel to assist in the selection process.

Acknowledgments

The AAC noting the retirement of Mr. Claus Andreasen as Director of OIA, expressed the view that Mr. Andreasen’s leadership and skills had greatly contributed to the excellent reputation and prestige of the UNICEF internal audit function, and thanked him for his support to the working of the AAC.

The AAC acknowledged the contributions of Mr. David Kanja, its outgoing member, for his leadership of the AAC in its early years, and of Ms. Catherine Zuzak for ably serving as its Secretary during 2010.
