ANNUAL REPORT FOR 2017
1. Executive Summary

2. Achievements
   2.1 Main results achieved
   2.2 Key challenges
   2.3 Exceptional achievements
   2.4 Partnership

3. Studies, Surveys, and Publications Completed in 2017

4. Annexes

   Office management plan 2014 – 2017
   Annual work plan 2017
1. Executive Summary

Transformation characterized 2017 for the Division of Financial and Administrative Management (DFAM) as it adjusted its capabilities to better support UNICEF’s sharpened focus on results and to demonstrate the most value for money in achieving those results.

As it continued to shift many of its traditional back office transactional responsibilities to the Global Shared Services Centre (GSSC), DFAM embraced a more analytical, advisory and value-added service orientation. This transition included enhancements to the Division’s problem-solving, field support and management systems capacities as well as changes to its organizational structure.

The reorganization of DFAM will facilitate managing a growing workload, a new business partner approach that will ensure clearer, more direct service for clients and closer relationships with our field-based operations colleagues. Supporting this transition, DFAM launched the web-based Regulatory Framework Library in July 2017 as the single, authoritative source for UNICEF policy, procedure and guidance, accessible to all UNICEF offices globally.

The Division contributed US$103 million to regular resources through investments in foreign exchange and capital markets, in spite of market volatility. In addition, DFAM management of UNICEF’s after service health insurance (ASHI) funds increased their market value by US$59 million.

DFAM supported the Supply Division in pre-financing critical supplies for field offices, mainly in Sub-Saharan Africa. DFAM also provided technical support to special contracting arrangements in negotiations with suppliers employing non-standard terms, typically with accompanying financing structures to secure improved pricing (resulting in savings).

DFAM facilitated the development and Executive Board approval of the 2018-2021 integrated budget. The approved budget is aligned with the UNICEF Strategic Plan and indicates a steady growth in revenue and increased expenditure in programme-related activities.

Continued progress has been made in developing the Budget Formulation Tool, which aims to improve the programme budgeting and monitoring process and to gain efficiencies for the field and globally. The tool will facilitate “bottom up” planning for Office Management Plan (OMP) and Country Programme Document (CPD) development consistent with results-based budgeting. This key application will be delivered in 2018.

DFAM prepared the 2016 Financial Statements in compliance with international public sector accounting standards (IPSAS). The high-quality of the statements resulted in an unqualified audit opinion from the UN Board of Auditors (UNBOA), reflecting that they were fairly and appropriately presented in accordance with IPSAS. The Division also prepared comprehensive
quarterly assessments of UNICEF’s financial health for Executive Management during the year.

Among DFAM’s efforts to simplify processes, the most significant in 2017 was the introduction of eZHACT, a new tool for recording direct cash transfer transactions, which was implemented across all UNICEF offices. This tool has significantly reduced the time between approval of the payment and receipt of payment by the implementing partner, from an average of 7-10 days to 2-3 days. It has also eliminated data redundancies, strengthened internal controls, and resulted in recording implementing partner financial reports on a timelier basis.

As part of its eco-sustainability responsibilities, DFAM collected environmental emissions data from all offices, including more than 230 zonal offices, the largest coverage among all UN agencies. Using this data, UNICEF was able to offset its unavoidable carbon emissions and obtain a claim of carbon neutrality for the Organization. The Division also developed and implemented a standard operating procedure to guide offices and operations along the path towards improved eco-efficiency and accessibility.

Also in 2017, the Division in added to its ticket price audit process introduced in 2016 by expanding the scope of its existing dynamic price tracking technology within the travel management process. This improvement insured that average ticket prices at New York Headquarters remained flat compared to the 2016 baseline of US$2,200, despite a 3 percent increase in travel demand (transactions). Total managed travel costs increased to US$10.7 million, or just over 5 percent, from last year. Contract and compliance management and operational efficiencies helped realize an estimated US$1.7 million in savings/avoidance benefits.

2. Achievements

This section provides an overview of the implementation results for the last year of the Office Management Plan for 2014 – 2017 and the Annual Work Plan 2017.

2.1 Main results achieved

In the area of Oversight, Coordination and Monitoring, the Division focused throughout 2017 on the efficient coordination of external oversight; improvement of internal control policy; capacity development initiatives; and implementation of governance, risk management, and compliance (GRC) systems.

- The oversight coordination and monitoring portfolio grew substantially as more accountabilities were assigned to the Division. Coordination and support was provided for 15 external audit visits to offices. DFAM was also tasked with formal follow-up and reporting on internal audit recommendations across the Organization. The effort invested led to a substantial reduction in audit recommendations open for more than 18 months.
• Donor oversight of management functions also increased notably. DFAM supported over 40 donor visits and requests received globally, in coordination with the Brussels Office of the UNICEF Public Partnerships Division (PPD) and in meeting DFID\(^1\) oversight requests.

• Important steps were taken to strengthen the UNICEF Internal Controls Framework. Internal controls were assessed and documented against the 17 principles of the COSO\(^2\) Second Line of Defense. The mapping was presented to the Audit Advisory Committee (AAC) of the UN Board of Auditors and will serve as the basis for a more in-depth assessment.

• DFAM enhanced UNICEF’s internal controls capacity by strengthening the systems that enable coordinated monitoring of investigations that result in financial losses due to fraud or misconduct. This function has been formalized in the structure of the Division.

• The DFAM-led initiative to develop the UNICEF Anti-Fraud Strategy was launched in October with the goal to consolidate the Organization’s preventive, detective and responsive protocols and mechanisms. DFAM submitted a draft strategy to executive management for review in December.


• At the end of 2017, DFAM launched an initiative to develop a more coherent approach to Enterprise Risk Management (ERM) which reflected the Value for Money (VfM) principles of the 2018-2021 Strategic Plan and better addressed the inherent risks to implementing the plan. This initiative will help consolidate the conceptual framework which will shape the design of the MetricStream\(^3\)-based risk management tool that will be rolled out in 2018.

• DFAM also continued to coordinate operations-related capacity development efforts, most notably offering staff access to Chartered Institute of Public Finance and Accountancy courses and certification. Internally, the Division supported a number of professional development stretch assignments for DFAM staff, strengthening their professional capacity.

**In the area of Cash Management, Treasury and Structured Finance,** DFAM concentrated on five main areas of work: managing financial risk and liquidity while earning returns on cash balances, enhancement of the system’s capacity, technical support for direct cash transfer programs, support to emergency response, and pre-financing of supplies.

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\(^1\) UK Department for International Development (see: https://www.gov.uk/government/organisations/department-for-international-development)

\(^2\) Committee of Sponsoring Organizations of the Treadway Commission (see: https://www.coso.org)

\(^3\) MetricStream is a market-leading, cloud-based GRC platform (see https://www.metricstream.com/)
• DFAM funded all offices within a five-day lead-time, making liquidity available to field programmes in the most cost-effective way. Ad-hoc strategies on the purchase of foreign exchange worked well for small offices and for large offices. As a result, DFAM purchased 95 currencies during the year, supporting 107 country offices and 4 regional offices, generating US$22 million in added value that represent savings to programme activities.

• The Division contributed US$102.9 million (US$103.6 million in 2016) to regular resources despite volatile foreign exchange (FX) and capital markets, of which US$63.9 million (US$49.1 million in 2016) was the interest revenue earned on US$4.2 billion of assets, and US$39 million (US$54.5 million in 2016) was foreign exchange gain due to effective FX management. Reduced FX gains were mainly due to unusually high margins in Nigeria in 2016.

• After Service Health Insurance (ASHI) funds, which are externally managed, were fully transferred to Fund managers in the amount of US$411 million, with current market value of approximately US$470 million. Additional transfers will be made in 2018 based on the funded reserve balance.

• DFAM has made steady progress in developing the Cash Forecasting Tool, which enhances the management of investments and cash flow and reduces risk by automating, simplifying and improving cash forecasting and reporting. Design and development work has been completed and was performed in house saving the Organization US$1.4 million compared to original budget.

• DFAM provided technical expertise and oversight to direct cash transfer programs in emergency areas, including expert advice on the selection of banking counterparties and paying agents, reviews of banking agreements, terms of reference (TORs), and FX strategy. Most notably, DFAM generated added value of US$11.96 million by recommending an innovative FX approach using the market rate instead of the official UN rate. This support facilitated the delivery of benefits to 1.33 million local households (approximately 8.66 million people or nearly 30 percent of Yemen’s population).

• DFAM continued to provide advice on financial matters to emergency operations. At the country level, the two operations staff on the Emergency Response Team (ERT) provided a total of 45 weeks of in-country technical operations support, undertaking 8 missions to 5 countries and 1 regional office and observation of a supply logistics training over the course of the year to facilitate the effective implementation of emergency operations and streamlining of financial and administrative procedures for emergencies. Four of the 5 offices were in Level 3 countries (South Sudan, Yemen, Bangladesh, DRC) and one was in a Level 2 country (Somalia). The ERT members were also actively involved in the launch of the Global Peer Review Tool, a guideline to enable office compliance assessments for strengthening systems, and the development of a proposal on United Nations Living and Working Standards that, if adopted, will establish more harmonized and suitable living standards in hardship locations for all UN staff. Additionally, DFAM supported the Supply Division in pre-financing critical supplies for field offices, mainly in Sub-Saharan Africa.
• The Division also provided technical support to special contracting arrangements such as those negotiated with suppliers employing non-standard terms, typically with accompanying financing structures to secure improved pricing (resulting in savings). These innovative mechanisms (VII & ad-hoc) involved supplies totaling US$62 million and 48 transactions.

**In the area of Budget Management**, DFAM focused on three main areas of work: development and Executive Board approval of the 2018-2021 Integrated Budget; continued development of the Budget Formulation Tool; and management of central budgets and improved reporting.

• The Division facilitated and coordinated development of the 2018-2021 Integrated Budget, which was approved by the Executive Board at the second regular session in September 2017. The document detailed the financial framework of revenue and expenditure estimates and the level of regular resources programme submissions for the four-year period. As part of the development process, the Division contributed to internal Technical Review Team (TRT) reviews and Project Budget Reviews (PBRs), coordinated formal discussions with the ACABQ⁴ and assisted in informal consultations with Member States.

• DFAM periodically provided financial analysis and recommendations to the Office of the Executive Director and the Global Management Team, particularly on monitoring and control of regular resources expenditures within updated revenue estimates.

• In line with DFAM’s responsibility to support regional PBRs and lead the global ones, DFAM monitored all budgets for centrally provided services requiring periodic review and processed requests for release of savings from vacant posts.

• Steady progress has been made in developing the Budget Formulation Tool (BFT), a web-based application that will strengthen UNICEF’s results-based management (RBM) agenda and assist in deepening the Organization’s understanding of its spending based on evidence. The tool will facilitate “bottom up” planning for Office Management Plan (OMP) and Country Programme Document (CPD) development, consistent with Results Based Budgeting; provide a common platform to monitor and administer office requests for discretionary funding; automate the issuance of budgets currently processed manually and integrate and monitor donor proposals. The design and development work has been completed, and the build process has begun. Completion, training and rollout are planned for 2018.

• Following consultation with the Office of the Executive Director and the Deputy Executive Directors, a new quarterly financial management report has been developed and

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⁴ UN Advisory Committee on Administrative and Budgetary Questions (see: http://www.un.org/ga/acabq/)
introduced. The report is intended to better inform management decision making and assist resource allocation deliberations.

**In the area of Financial Reporting**, DFAM maintained its commitment to observe and apply the highest standards of financial management and reporting and to improve transparency and accountability. A key focus is on protecting the Organization from financial and reputational risks, promoting donor confidence, and identifying opportunities for improved efficiency.

- DFAM prepared the 2016 Financial Statements in compliance with international public sector accounting standards (IPSAS). The high-quality of the statements resulted in an unqualified audit opinion from the UN Board of Auditors (UNBOA), reflecting that they were fairly and appropriately presented in accordance with IPSAS. The Division also prepared comprehensive quarterly assessments of UNICEF’s financial health for Executive Management during the year.

- DFAM closely monitored the monthly closing process, which is a mandatory requirement of all office locations and serves to ensure that financial information was accurate and reliable throughout the year, enabling the preparation of interim financial reports for use by UNICEF management, by donors, and by the public via the UNICEF\(^5\) and IATI\(^6\) transparency sites. Over the course of the year, DFAM prepared over 2,300 certified financial statements for submission to individual donors.

- In order to ensure the accuracy and reliability of the UNICEF financial statements and systems, more than 3,000 UNICEF staff participated in over three million transactions and prepared some 2,000 accounting schedules in Country Offices.

- In response to requests from donors for increased transparency in reporting, DFAM and PPD led a working group that formulated eight proposals for improvements. Further training of Country Office staff on reporting contributed to greater donor confidence.

- The most significant simplification effort in 2017 was the introduction of eZHACT, a new tool for recording HACT transactions, which was implemented across all UNICEF offices in October 2017. This tool has significantly compressed the time between payment approval by UNICEF and receipt of payment by the implementing partner, from an average of seven to ten days to two to three days. It has also eliminated data redundancies, strengthened internal controls, and recorded implementing partner financial reports on a much timelier basis.

- Two new funds hosted by UNICEF saw their first full year of operation in 2017: End Violence Against Children (EVAC) and Education Cannot Wait (ECW). Within a tight timeframe, DFAM developed new procedures to manage hosted funds and managed the

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\(^5\) UNICEF Transparency Portal (see: https://open.unicef.org/)

\(^6\) International Aid Transparency Initiative (see: https://www.aidtransparency.net/)
signing of 22 donor agreements, receipt of contributions totaling US$119 million, and disbursement to grant recipients totaling US$41 million.

- DFAM continued to support PPD and the Private Fundraising and Partnerships (PFP) Division with complex donor negotiations, especially when donors requested additional conditions. DFAM reviewed and recorded approximately 1,330 agreements for contributions to Other Resources, a significant achievement despite very high staff turnover during the year as a result of the planned transfer of staff performing this function to the Global Shared Services Centre (GSSC) in early 2018 and the associated abolishment of posts.

- DFAM also supported field offices through targeted training which included class-room based training delivered as part of the eZHACT roll-out, face-to-face finance training in ESARO (East and South Africa Region Office), and Skype training webinars on asset count and error corrections and year-end closure.

**In the area of Administrative Management**, the Division focused on increasing operational efficiencies, offsetting unavoidable carbon emissions, and establishing common UN premises.

- In order to meet the Organization’s strategic objectives in the areas of eco-sustainability and accessibility, a new Field Support and Eco-Sustainability unit was established to support Country Offices and operations in improving eco-efficiency and accessibility to foster inclusiveness. The Division also developed and implemented a standard operating procedure to guide offices and operations along the path towards improved eco-efficiency and accessibility.

- DFAM collected environmental emissions data from all offices, including more than 230 zonal offices, the largest coverage across all UN organizations. Analysis of this data helped UNICEF offset its unavoidable carbon emissions and claim carbon neutrality status. The UNICEF Greening and Accessibility Fund, generated by levying a 3 percent air travel surcharge on all non-programme travel, enabled in the distribution of US$1.2 million, as follows: US$1 million for eco-efficiency projects across 39 country offices, and US$200,000 for accessibility projects across 14 Country Offices.

- As part of the Capital Master Plan for UNICEF House at New York Headquarters, DFAM completed the installation of new LED lights, which has resulted in a 15 percent reduction in electrical power consumption. A new rooftop seating area was created in full compliance with ADA Standards for Accessible Design and opened for use by all staff. The Division outfitted all conference rooms with new ergonomic furniture throughout both 3UN and 633 Third Avenue offices, installed new audio-visual systems to facilitate

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7 Americans with Disabilities Act (see: https://www.ada.gov/2010ADAmstandards_index.htm)
teleconferencing, and undertook a complete security review of building access control systems.

- In 2017, the Division added to its ticket price audit process introduced in 2016 by expanding the scope of its existing dynamically price tracking technology within the travel management process. This change insured that average ticket prices remain flat to the 2016 baseline of US$2,200 despite a 3 per cent increase in travel demand (transactions). Total managed travel cost in NYHQ increased to US$10.7 million, or just over 5 percent from last year. An estimated US$1.7 million in savings/avoidance benefits was realised though contract and compliance management and operational efficiencies.

- Multiple enhancements were made to the VISION travel module coupled with targeted regional level trainings and follow-ups resulting in a 50 per cent reduction in open Travel Authorizations (TAs) across UNICEF compared to 2016 numbers. In continued efforts to reduce administration costs, DFAM organised and conducted six in-person regional trainings to achieve program consistency across UNICEF.

- DFAM has been instrumental in negotiations with Government partners in confirming the establishment of UN common premises, exemplified by the new One UN Houses in Senegal and Swaziland. A bilateral agreement was concluded with UNFPA to construct joint premises in Nepal which will provide safe and secure premises for UNICEF staff while also reducing administrative management costs, with construction scheduled to begin in the first quarter of 2018. In Chile, DFAM used proceeds from the sale of a building to procure a replacement office, where final security enhancements are nearing completion.

2.2 Key challenges

- Prolonged vacancies affected the Division’s capacity to achieve optimal results. For example, a vacancy of seven months affected the efficient implementation of the CIPFA8 programme and the development of a new global Operations Induction Course.

- Donor requests related to oversight also presented challenges as DFAM occasionally received duplicate information needs from different sectors of the Organization.

- During their review of UNICEF’s 2016 financial statements, the United Nations Board of Auditors challenged the UNICEF Revenue Recognition Policy. They requested additional disclosures on the policy in the financial statements and recommended management to revise the policy.

- The anticipated transfer of grants transaction processes to the GSSC, planned for early 2018, resulted in considerable uncertainty for DFAM staff currently carrying out these functions and some attrition and resulting gaps.

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8 Chartered Institute of Public Finance and Accountancy (see: http://www.cipfa.org/)
• The development and roll-out of the Budget Formulation Tool has been delayed due to performance challenges with the external consultants and to internal resourcing constraints.

• The budget review on organizational unit non-post costs is advancing slower than planned due to limited time and resources supporting the function.

• The collection of Environmental Footprint Assessment data and performance of a quality control check presented challenges due to the manual mode of collection and to the volume and diversity of data. The Environmental Footprint Assessment Software that was procured in 2017 and will go live in Q1 2018, will address this area of shortfall.

2.3 Exceptional achievements

• UNICEF obtained an unqualified audit opinion for the 2016 Financial Statements and implemented 52 per cent of audit commendations.

• The UNICEF 2018-2021 Integrated Budget was seamlessly prepared and approved.

• The investment of ASHI funds resulted in a market value increase of US$59 million.

• The financial management of liquidity contributed US$100 million to Regular Resources.

• Travel operations savings and cost avoidance totaled US$1.65 million.

• UNICEF claimed carbon neutrality and achieved a 15 per cent cost reduction in electrical power at UNICEF House.

• The Regulatory Framework Library was launched in July 2017 as the single, authoritative source for UNICEF policy, procedure and guidance.

• DFAM launched eZHACT, the new and improved HACT Manager, in October 2017, significantly reducing the time between payment approval and receipt of payment by the implementing partners, eliminating data redundancies, strengthening internal controls, and recording implementing partner financial reports on a timely basis.

2.4 Partnerships

DFAM partnered with nearly all HQ Divisions, Regional and Country offices in performing the regular functions of the Division and advancing projects to improve UNICEF operations. A critical responsibility under the Division’s lead was the development and approval of the 2018 – 2021 Integrated Budget that required intense interaction with the Office of the Executive Director and the Global Management Team.
• **PPD** has been a key partner in helping DFAM successfully meet donor oversight requirements and manage donor oversight relationships.

• DFAM worked closely with the Office of Emergency Programmes (EMOPS) and **PPD** in the development and roll-out of systems and tools for cash-based programming modalities. Work is also ongoing with the *Office of Innovation* to explore options for accepting cryptocurrency from donors and leveraging block chain mechanisms. A partnership with *Supply Division* resulted in the pre-financing of 35 critical supplies for 30 countries with a value of US$60 million.

• Partnership with the *ICTD-based Enterprise Content Management team* invested substantial technical and communications resources for the development of the Regulatory Framework Library.

• DFAM partnered with the *UN Environmental Management Group* in the Peer Review exercise, wherein various UN agency premises are assessed for energy and resource use efficiency by a team of experts. DFAM is partnering with the *IKEA Foundation* and *Engineers Without Borders* to undertake energy assessments at four UNICEF Zonal Offices in Kenya, and at the India CO and 4 Zonal offices in India.

• An active participant in the newly established UNDG Task Team on Common Premises and Facility Services, DFAM assumed Vice Chair responsibilities in 2017. Having joined the interagency Fleet Forum body in 2016, drawing on best practice from existing members such as WFP, WHO, UPS, Toyota and Nissan, DFAM established training resources to improve vehicle fleet management within the Organization. During the course of 2017, UNICEF staff globally completed 2,700 individual training modules which will help drive the effort to improve operations within this area.

• UNICEF remains part of Inter-Agency Travel Network offering advice and sharing best practices across UN funds and programs. UNICEF is also in partnership with UNDP and the Secretariat in NYHQ on expanding joint air contracting.

• Together with WFP, UNHCR, and DFS, UNICEF has been instrumental in moving forward the work of the HLCM\(^9\) working group established to establish common standards on staff living and working conditions in high risk environments. During the course of 2017, common standards for guesthouse accommodation have been agreed and submitted to the HLCM and a comprehensive review of office accommodation is well underway.

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\(^9\) High Level Committee on Management (see: https://www.unsystem.org/content/h lcm-strategic-plan)
3. Studies, Surveys, and Publications Completed in 2017

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<th>Sequence number</th>
<th>Type of report</th>
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<td>E/ICEF/2017/AB/L.4 Add. 1</td>
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<td>Financial report and audited financial statements for the year ended 31 December 2016</td>
<td>A/72/5/Add.3</td>
<td>General Assembly document</td>
<td>Official records</td>
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<td>A series of energy and water use assessments across fifty UNICEF offices</td>
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<td>Eco-efficiency</td>
<td>Identify the most feasible projects that UNICEF can invest in to improve the eco-efficiency of its premises</td>
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4. Annexes

Office Management Plan 2014 – 2017

Annual Work Plan 2017