

UNICEF Audit Advisory Committee

2018 Annual Report to the Executive Board

Summary

The present report provides information on the activities of the Audit Advisory Committee (AAC) of UNICEF for the calendar year 2018. It presents an overview of the AAC, describes the key areas of coverage and summarizes the advice given to UNICEF Management during 2018.

Following regular practice, this report is tabled together with the UNICEF Office of Internal Audit and Investigations annual report to the Executive Board

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I. Executive summary

1. The UNICEF Audit Advisory Committee (AAC, or “the Committee”) is an independent oversight advisory body (without management powers or executive responsibilities) that advises the Executive Director and informs the Executive Board on the conduct of management responsibilities in accordance with policies and procedures inclusive of the UNICEF Financial Regulations and Rules, the United Nations Staff Regulations and Rules and other relevant directives. The Committee operates in accordance with its Charter (Terms of Reference), which was approved by the UNICEF Executive Director on 9 November 2012. The Committee proposed a revised draft Charter for the Executive Director’s review in 2018 and looks forward to the finalization of the new Charter in early 2019.

2. The AAC comprises six members, who are independent of both UNICEF and its Executive Board and serve on the Committee on a pro bono basis. The Committee collectively possesses expertise in governance, risk management, internal control, oversight, finance, financial reporting, internal and external auditing, investigation and evaluation. All the members have declared that they do not have any actual or potential conflicts of interest in the exercise of their AAC responsibilities.

3. The AAC recognizes that UNICEF is the only organization specifically named in the Convention on the Rights of the Child as a source of expert assistance and advice (on the implementation of the Convention in the areas falling within the scope of its mandate).¹ In undertaking its duties, the AAC is mindful of the contextual environment in which UNICEF is required to: (a) respond and deliver results for children in an effective and efficient manner, with a focus on equity; and (b) respond to several global humanitarian crises, managing interdependencies with partners for results and the aid funding environment.

4. The AAC held three regular meetings in 2018 (April, September and December), each of which was attended by all the members. While there was no change in membership in 2018, UNICEF approved the membership renewal of two continuing members (for a second term of three years). The Committee would like to express its appreciation to Ms. Lesedi Lesetedi for serving as a member since 2013, and as the Chair of the Committee between July 2016 and February 2019. (See the annex for the membership and schedule of meetings in 2018).

5. The Committee met with the Executive Director, maintained engagement with the Deputy Executive Director, Management (as the key management liaison), and also met with the Deputy Executive Directors (Programmes, Partnerships and Field Results), two Regional Directors and several Directors of headquarters offices. Other UNICEF senior staff made valuable presentations at AAC meetings. The presentations and briefings to the AAC were of a high quality, reflecting that a great deal of thought and attention had gone into their preparation.

6. The Committee issued memorandums containing strategic advice to the Executive Director, which were appended to the minutes of each Committee meeting. The AAC did not seek a response to each point of advice as if these were audit recommendations; rather, it hoped that they would be considered by Management in the conduct of the work of UNICEF. The AAC foresees that these points will be discussed at its future session, within various items under consideration. The Committee was pleased to note that the Office of the Executive Director generally acknowledged these memorandums and provided the UNICEF perspectives and updates on the advice provided.

7. The key advice provided by the Committee to the Executive Director following the three meetings is summarized below (details are available in section IV of this report):

A. Governance and accountability

(a) Develop a clear organizational policy position and plan for responding to the implications and opportunities of United Nations reform (repositioning of the United Nations development system), and a

¹ UNICEF, Convention on the Rights of the Child webpage, www.unicef.org/crc, accessed 18 March 2019.

plan for communication with field offices for unified organizational positions, given that the highest impact will be in the country offices. (Para. 13.a)

(b) Articulate the aspired organizational culture in a simple and effective manner to enable staff to comprehend and conform to expected standards of behaviour and analyse the underlying causes for the broader issue of abuse of authority (as noted in the increase in the investigations caseload). (Para. 13.c)

(c) Assess the impact of key organizational change management initiatives for its substantive effectiveness, and further strengthen coordination between headquarters and regional offices to ensure coherence among the initiatives and considering the absorption capacities of the country offices. (Para. 13.e)

B. Enterprise risk management and internal controls

(a) Simplify the organizational policy architecture, issue revised enterprise risk management policies, and complete implementation of new systems to strengthen effective and real-time risk assessment and management. (Para. 14.a)

(b) Closely monitor the different improvement initiatives on internal controls, especially with respect to the pace of implementation and strengthening of the “second line of defence”.² (Para 14.a)

(c) Obtain assurance on cybersecurity, information technology controls and data privacy. (Para. 15.d)

(d) Introduce matrix management in a systematic manner across key operational functions. (Para. 15.c)

(e) Review and ensure the adequacy of risk mitigation measures for innovation engagements and financing (including intellectual property rights and data privacy). (Para. 15.g)

(f) Formulate an organizational communication and advocacy strategy establishing requirements for the nature, type and extent of consolidated communication resources and their utilization, strengthen the key performance indicators for the functions, and more effectively communicate the achievements of UNICEF. (Para. 15.h)

(g) Establish procedures and controls to ensure that claims against UNICEF are reported to the Legal Office at an early stage, without exception; and issue guidance on systems and processes governing the use of a single comprehensive repository for storing organizational contracts and donor agreements and informing the Legal Office of all deviations from the general terms and conditions of UNICEF contracts. (Para. 15.f)

C. Oversight functions³

(a) Prioritize the recruitment of the Director, Office of Internal Audit and Investigations (OIAI; the post has been vacant for more than six months) and other divisional vacancies that existed for most of 2018. (Para. 18.a)

(b) Focus on the risks of underreporting or low detection of fraud in UNICEF programmes and develop a strategy for proactive fraud identification/prevention efforts. (Para. 18.a)

(c) Monitor, promote and deepen the operational ownership, commitment and accountability of country representatives and regional directors for ensuring the adequacy of independent evaluations in country offices, strengthen evaluation capacity in country offices, and augment the use of lessons learned. (Para. 19)

² The “second line of defence” typically includes functions that oversee risk, like compliance, comptrollership and risk management.

³ The AAC also provided advice to the UNICEF oversight functions, namely the Office of Internal Audit and Investigations (OIAI), the Ethics Office, the Evaluation Office, and the Office of the Ombudsman for United Nations Funds and Programmes.

(d) Bolster the use of brief, incisive executive summaries of evaluations (corporate and country offices) to ensure that management’s attention is drawn to key issues identified and that lessons learned are disseminated for application in other countries/regions of the organization. (Para. 19)

(e) Clarify the specific roles and responsibilities of the Ethics Office, and the oversight role of the AAC over that office, together with an assessment of the sufficiency of resources provided to the office. (Para. 20)

(f) Formalize the term of the Ombudsman for United Nations Funds and Programmes (in coordination with other organizations served by the Ombudsman) to strengthen the independence of the office and provide commensurate resourcing support to enable it to adequately and effectively service the mediation and conflict-resolution needs of UNICEF. (Para. 21)

8. The AAC shared the largely positive results of its 2018 self-assessment with the Executive Director and made some suggestions that can further strengthen its own effectiveness. (Para. 28)

II. Mandate of the Audit Advisory Committee

9. The primary responsibility of the Committee is to play an advisory role, without management powers or executive responsibilities. The Committee provides advice to the Executive Director and informs the Executive Board in fulfilling its governance and oversight responsibilities by reviewing and advising on the:

- Adequacy and effectiveness of governance, risk management, internal controls and financial reporting;
- Actions taken by management on audit recommendations;
- Independence, effectiveness and objectivity of the internal audit, investigations and external audit functions.

To ensure that the Committee can discharge its responsibilities more effectively, the Committee proposed a revised draft Charter for the Executive Director’s review in April 2018. The Committee looks forward to its earliest finalization in 2019, considering the Committee’s proposed revisions together with the:

- Enhanced role of the Audit Advisory Committee (now covering additional responsibilities such as oversight of the evaluation function, Joint Inspection Unit (JIU) reviews), and the change in membership size.
- Expectations of the Executive Director.
- Recommendations from the JIU review of the audit/oversight committees in the United Nations system (that was ongoing as at 31 December 2018); and existing standard practices of audit advisory committees in the United Nations organizations.
- Contemporary good practices and standards on governance and oversight.

III. Audit Advisory Committee workplan

10. The rolling three-year workplan (2017–2019) of the AAC (in accordance with its Charter) guides the Committee’s activities to meet its responsibilities. The plan helped the Committee to identify offices mapped to key strategic risks, assess the degree of engagement required with the relevant offices and provide advice to strengthen governance and risk management in UNICEF. The Committee also increased the duration of the AAC regular meetings in 2018, from two to three days per session, which allowed adequate time for the members to review and deliberate about the wider range of topics. The Committee did not undertake any field visits in 2018.

Following the Committee’s useful visit to three headquarters locations outside New York in 2017, the Committee proposed to UNICEF Management to consider, in 2019, the potential for a visit to a UNICEF regional office (and a few country offices within the region), to deepen the Committee’s understanding of the decentralized programmatic operations in UNICEF and its inter-agency work in the field.

IV. Summary of the Committee’s activities and advice

11. The sections that follow present highlights of the areas covered and the advice provided by the AAC in 2018 for the areas of its responsibilities as defined in its Charter. The Committee’s advice in the areas of governance, risk management and internal control is covered in section IV (A) of this report. The advice provided by the AAC on the UNICEF oversight system, including internal audit and investigations, evaluations, ethics and the Ombudsman services, are covered in section IV (B).

A. Governance, risk management and internal controls

12. The Committee reviewed the organizational strategic priorities, structures and systems for governance and concluded that they are generally well established, articulated and functioning. The advice rendered by the Committee in this section is categorized within three groups: strategy and governance; enterprise risk management; and corporate enablers.

13. **Strategy and governance:** The Committee reviewed management updates on key organizational strategic priorities (including the UNICEF Strategic Plan, 2018–2021) and governance systems, and provided advice on the following:

(a) **United Nations reform agenda:** At each of its meetings the Committee received status updates on the progress of the United Nations reform agenda (repositioning of the United Nations development system), the potential implications and the evolving positions of UNICEF.

The Committee advised UNICEF to:

- Develop a clear policy position and plan for responding to the implications and opportunities from these reforms (including on the Strategic Plan). Among others, these could include a strong central team reporting directly to the Executive Director for stakeholder engagement (external and internal) and formulating action plans and communication with field offices for unified organizational positions (given its highest impact in the country offices).
- Review the implications of the new 1 per cent levy on private sector contributions (as part of the United Nations reform) and evolve communication strategies for explaining these decisions to private sector partners to mitigate the potential negative implications and protect its programmatic interests (especially given the unique nature of engagement by UNICEF with the private sector and the National Committees for UNICEF).

(b) **Organizational governance:** At each of its meetings, the AAC received updates from the Deputy Executive Director, Management (or designate) on the decisions that had been adopted during the Executive Board sessions. The Committee was also informed about the key matters discussed by the UNICEF Global Management Team (GMT). Although the GMT is not a decision-making body, it is comprised of the highest levels of the organization’s senior Management. Accordingly,

The Committee remains of the view that the effectiveness of the Global Management Team would be pivotal in clarifying macro-level accountabilities, setting organizational risk appetite, reviewing the management of the highest risk exposures, and exemplifying UNICEF culture and core values that are outlined by the Executive Director.

(c) **Organizational culture:** The AAC was updated on the ongoing actions taken by UNICEF on protection from sexual abuse and exploitation, abuse of authority, and strengthening organizational culture (a United Nations system-wide priority). It also received briefings on the results of the 2018 UNICEF Global Staff Pulse Survey and the views of the Global Staff Association.

The Committee advised UNICEF to:

- Articulate its aspired organizational culture and include it in a document that enables staff and managers to understand and internalize the expectations in a simple, clear and consistent manner.
- Analyse the underlying causes for the wider issue of abuse of authority (while continuing its focus on sexual exploitation and abuse), to enable it to establish demonstrable accountability and ensure a fair and respectful workplace.

(d) **Organizational structure and reporting:** As part of the Committee's meetings with several headquarters offices during 2018, it also reviewed the organizational structure and reporting linkages.

The Committee advised UNICEF to:

- Review the functional roles and responsibilities of some headquarters offices (Division of Data, Research and Policy, Field Results Group, Programme Division), to avoid overlaps and ensure effectiveness.
- Review the alignment of the wider reporting relationships of headquarters offices, including the reporting relationship of Supply Division.

(e) **Change management:** The Committee held discussions with two regional offices and several headquarters offices and also received their feedback regarding the number of corporate organizational improvement initiatives that were concurrently under way.

The Committee advised UNICEF to:

- Evaluate the need for assigning management responsibilities and capacity to a nodal unit within UNICEF to assess the impact of key organizational change management initiatives (not just efficiency but also its substantive effectiveness), reengineer key organizational processes, and connect siloed improvement initiatives for enhanced coherence and results. Such efforts could help to identify and eliminate existing procedures and processes that do not add value, and redesign and innovate more efficient ways of working, to enable the achievement of the higher-level result objectives of UNICEF.
- Strengthen coordination between headquarters and regional offices while implementing multiple important corporate initiatives simultaneously, to ensure coherence among the initiatives and facilitate easier and sequenced implementation for country offices (considering their absorption capacities).

(f) **Resource mobilization and partnerships:** The AAC was briefed on the public sector resource mobilization outlook (considering key external developments), donor conditionalities and priorities, and key risks and opportunities.

The Committee advised UNICEF to pursue dialogue with the wider United Nations system (e.g. through the United Nations System Chief Executives Board for Coordination, or the High-Level Committee on Management) to build system-wide positions on minimizing donor-specific conditionalities. This will mitigate the risks of some United Nations agencies accepting conditionalities (owing to funding pressures), which in turn sets a system precedence for acceptance of conditionalities.

(g) **Emergency response:** The AAC was briefed by two regional offices on the nature and challenges of key emergency responses managed by their offices. The Committee recognizes the inherent complexities and the commitment of UNICEF staff in responding to calls for support (sometimes at great peril to their own lives).

The Committee advised UNICEF to:

- Review and strengthen the corporate support to regional/field offices to improve mechanisms to scale up UNICEF offices/presence in crisis situations and to enable a smooth scaling down of UNICEF offices/ presence in post-crisis situations.
- Conduct an audit/evaluation of the emergency cash transfer programme to inform UNICEF of the lessons learned from the specific interventions and the larger role of emergency cash transfers as an instrument of programme delivery strategy by UNICEF.

14. Enterprise risk management and internal control: The Committee reviewed the progress of the initiatives taken towards strengthening enterprise risk management and internal controls and concluded that there were opportunities to strengthen its operating effectiveness.

(a) **Enterprise risk management:** The AAC has, over the years, consistently monitored the UNICEF enterprise risk management framework and practice. The decentralized nature of authority and responsibilities in UNICEF means that management of risks will largely be within the domain of the concerned responsible office. The need for a robust real-time strategic and operational risk identification, analysis and reporting system therefore cannot be overemphasized. The AAC was apprised of the progress being made in implementing a common tool for enterprise risk management and policy management in 2019.

The Committee advised UNICEF to take actions to:

- Issue a revised enterprise risk management policy (clarifying roles and responsibilities).
- Resource the corporate risk management function commensurately.
- Implement planned enterprise risk management software systems for analysis and reporting of all forms of risks (including programmatic) and from all channels (top-down and bottom-up); and integrate enterprise risk management with performance management and accountability.
- Operationalize the important ongoing initiatives to strengthen the second line of defence (some of which, while making good progress, have been under implementation for the last couple of years).

(b) **Internal control framework:** The AAC had in previous years advised UNICEF Management to adopt a statement of internal control that would each year present an overall management assertion on the

adequacy and effectiveness of internal controls. The Committee was pleased to take note of plans by UNICEF to prepare for internal control attestation, together with other related initiatives, including the roll-out of a new budget formulation tool and the use of transaction-level monitoring, as well as the issuance of the organizational anti-fraud strategy.

The Committee:

- Strongly supports plans for designing systems and processes for providing an assertion on internal control, to help to strengthen the overall control environment of UNICEF.
- Advised UNICEF to review the heavy volumes of the organizational policies and manuals (that make implementation difficult and impede efficiency and effectiveness) and aim for a simplified policy architecture that is clear, brief and risk-informed to promote better understanding of organizational expectations and compliance thereof.
- Advised UNICEF to implement the open audit recommendations (especially those more than two years old for external audit and more than 18 months old for internal audit) to ensure that key risks associated with the recommendations are addressed on a timely basis. The Committee also advised that appropriate mechanisms be established for management review of outstanding oversight recommendations.

15. **Corporate enablers:** The Committee engaged with several UNICEF functions that serve as key management and operational enablers that contribute to enhancing organizational efficiency and effectiveness. While they are generally well established and functioning, the Committee’s advice to further strengthen the respective functions are categorized within eight sections below. (*Paras. 15(a) to 15(h).*)

(a) **Financial management and reporting:** The Committee reviewed the key results from the Board of Auditor’s report on the 2017 financial statements and the status of implementation of the recommendations, discussed financial and fraud risk management, and received updates on treasury operations.

The Committee advised UNICEF to:

- Carefully assess the risks while evolving the UNICEF policy regarding acceptance of cryptocurrencies and bitcoins.
- Prepare a UNICEF position paper to be shared with the Board of Auditors, explaining the conditions where the potential benefits of systematically levying liquidated damages on all suppliers are outweighed by the programmatic benefits of strategic supplier relationships and creation of markets.
- Explore opportunities for intra-agency trade transactions even within the same currency (and not just intercurrence trade) for savings in exchange rate fluctuations and consider options for hedge accounting.
- Formulate a realistic time-bound plan for fully funding post-retirement liabilities such as after-service health insurance.
- Strengthen continuous communication and dialogue with the Board of Auditors (both directly and through the Board of Auditors Audit Operations Committee) especially for evolving timely consensus on interpretational differences on matters relating to the audited financial statements.

(b) **Global shared services:** The AAC was briefed on the progress of the Global Shared Services Centre (GSSC) over the last two years, the processes and volumes managed by the centre, the initiatives under way or planned, and *the* current risks and opportunities.

The Committee advised UNICEF to carefully review, together with the Office of the Comptroller, proposals related to enabling insurance co-payments to be made directly by the contracted third party insurance service provider of UNICEF and subsequently recovering them from staff members' payroll through the Global Shared Services Centre (considering the risks involved in recoveries, the additional administrative work involved for initiating recoveries from staff, reimbursement to the third-party provider for co-payments made on behalf of staff, and ongoing reconciliations to ensure that all receivables and payables are settled on time, which would become necessary with the proposal).

(c) **Human resources:** The Committee received briefings on the progress of key reforms in the areas of recruitment, performance management and business partnerships, and was also updated on the results of the 2018 Global Staff Pulse Survey.

The Committee advised UNICEF to:

- Review the modalities for introducing matrix management in a structured and systematic manner across key operational functions, especially in the context of the Secretary-General's reforms and emphasis on use of matrix management in the new resident coordinator system.
- Consider appropriate ways of adequately recognizing and rewarding high performers, to ensure that they continue to be sufficiently motivated while also serving as an incentive for the other staff members.
- Evaluate the impacts of the changes resulting from the disbandment of the Central Review Body.
- Evaluate the procedures and criteria applied in sending staff on administrative leave following allegations of misconduct to ensure they are fair to the interested parties, and with regard for due process.
- Analyse the cost-benefit of the nature and timing of reference checks to be conducted within the recruitment processes and formalize the decision through necessary policy revisions.

(d) **Information technology:** The Committee received briefings on risks related to information and communications technology (ICT) governance, cyber risk assessment, ICT business continuity, and incident reporting and management mechanisms.

The Committee advised UNICEF to:

- Obtain independent assurance on the state of the information and communication technology governance and risk management, including cybersecurity.
- Explore opportunities for collaboration with the United Nations International Computing Centre for using their facilities for offsite backup and hosting services (on another continent).

(e) **Supply and logistics:** The Committee received briefings on the work done in the areas of supply chain management, influencing markets and products, partnerships, support to emergency response and innovations.

The Committee advised UNICEF to cautiously assess and closely monitor the risks and implications (e.g. reputational, regulatory and operational) in the pursuit of the strategy to establish a joint state-of-the-art supply and innovation hub with any specific country (especially in relation to its potential role as a supplier).

(f) **Legal:** The Committee also reviewed the general nature of legal risks for UNICEF.

The Committee advised UNICEF to:

- Establish procedures and controls to ensure that claims against UNICEF are reported to the Legal Office at an early stage without exception.
- Collaborate with the stakeholders for the General Data Protection Regulation (including United Nations system organizations, donors, European Commission) to ensure a common acceptable framework and criteria for demonstrating effective compliance and thus protecting the interests of UNICEF in fundraising, partnerships and advocacy.
- Review and assess the robustness of its data privacy and confidentiality architecture (e.g., information on individual donors, information on beneficiaries) as breaches could be damaging to the reputation of UNICEF.
- Issue guidance on systems and processes governing the use of a single comprehensive repository for storing documents such as organizational contracts and donor agreements, and informing the Legal Office when deviations from the general terms and conditions of UNICEF contracts are involved.

(g) **Innovation:** The Committee was apprised of the key developments in the innovation function in UNICEF, the pipeline of innovation initiatives, and the key risks and lessons learned from innovations.

The Committee advised UNICEF to review and ensure the adequacy of risk mitigation measures for innovation engagements and financing, and, more specifically, with regard to legal safeguards from liabilities relating to intellectual property rights infringements and data privacy violations.

(h) **Communications and advocacy:** The Committee received briefings on issues including the global communications and public advocacy strategy, communication campaigns, partnerships, digital media and staffing and resources.

The Committee advised UNICEF to:

- Prepare an organizational communication and advocacy strategy that establishes the requirements for the nature and type of consolidated organizational communication resources, provides a framework for an optimal utilization of such organizational resources, and strengthens the key performance indicators for the communication and advocacy functions. The strategy should go beyond the Division of Communication (DOC) and involve other divisions and offices.
- Review the internal structures within DOC to ensure their appropriateness and alignment with the aforementioned strategy and strengthen the linkages between the media section in DOC and the Office of the Executive Director.
- Review the risks of imbalance in the DOC workforce, given the high degree of use of consultants performing staff-type functions over extended periods.
- Consider reviewing and strengthening the communication and targeted awareness campaigns about the successes and achievements of UNICEF, including in child protection.
- Review the potential for a redesigned model of digital card operations, triggered mainly from the standpoint of child participation and advocacy (beyond financial returns), and integrated within the overall supporter engagement strategy (this may go beyond the Division of Private Fundraising and Partnerships and may need the involvement of DOC).

B. Independence, effectiveness and objectivity of the oversight functions

16. The AAC review of the functioning of the UNICEF oversight system comprised reviews of the independence, effectiveness and objectivity of internal audit, investigations, external audit, evaluation and ethics. The Committee met the Ombudsman once during the year and also covered the status of updates on the open recommendations from the reports of the JIU. Such review was also informed by interactions with the executives responsible for financial, management and programme accountability. Overall, the oversight function was generally well established and functioning, but the Committee looks forward to completion of the UNICEF Management review of internal oversight structures and functions to further enhance their effectiveness and collaboration.

External audit

17. **Meetings with the Board of Auditors:** The AAC had private sessions with the senior leadership of the Board of Auditors during two of the three meetings held in 2018. The Board of Auditors briefed the Committee on its workplans and the key results from their work and confirmed that there was no impairment to their independence or any scope limitations. The Committee appreciates the candid discussions, emphasizes the importance of the Board of Auditors for independent oversight and looks forward to frequent interactions with the Board. The Committee covered:

(a) **Review of the 2017 financial statements and management letters:** In April 2018, UNICEF shared the draft 2017 UNICEF financial statements with the AAC for its review and comments, following which the Committee provided substantive written feedback and discussed the feedback during the regular meeting. The Committee subsequently also received a written response from UNICEF acknowledging and providing clarification to the AAC comments. The AAC is pleased to note that the 2017 financial statements received an unqualified audit opinion from the Board of Auditors.

(b) **Review of the Board of Auditors' recommendations:** In the discussions with the Office of the Comptroller and the Board of Auditors, the Committee reviewed the audit recommendations as well as the progress on their implementation. The Committee was pleased to note appreciable initiatives in strengthening coordination and communication between UNICEF and the external auditors, and also that UNICEF would be submitting a formal management response document to the Executive Board in the session at which the 2017 financial statements would be discussed. The AAC was informed in December 2018 that there were five outstanding recommendations older than two years from the year of report issuance (three of the five will be implemented once the budget formulation tool is rolled out and the other two relate to application system enhancements for evaluation activities). The AAC was informed that actions were under way to complete the implementation of all these recommendations by the end of 2018.

Internal Audit and Investigations

(a) **Meetings with OIAI:** During each of its three meetings in 2018, the AAC had private sessions with the Director or the Deputy Director, OIAI (when the Director's post was vacant). The Committee appreciates the candid discussions with OIAI and emphasizes the importance of the office as a key pillar of independent oversight.

The Committee advised UNICEF to:

- Complete the recruitment of the Director, Office of Internal Audit and Investigations (OIAI; the post has been vacant for more than six months) in view of the strategic importance of OIAI as the primary independent internal oversight office of UNICEF; and also requested clarifications on the role of the AAC in the appointment of the heads of internal oversight offices (given its limited involvement in recent appointments).
- Prioritize filling the significantly high number of vacancies in OIAI and provide realistic updates of the 2018 OIAI workplan (in view of the vacancies) considering its impact on the annual opinion. (The Committee was informed that all the staff vacancies would be filled by early 2019 and that the delay was due to the change in plans to recruit staff in New York as compared to an initial plan to recruit them in another location).
- Carefully review the ways in which the results and conclusions of the internal audit and evaluation reports are used as a tool for performance management of executive senior management staff, to ensure that the principles of equality and fairness for those who are assessed are consistently applied while reducing potential bottlenecks for the effective functioning of the oversight offices.
- Focus on the risks of underreporting or low detection of fraud in UNICEF programmes, and develop a strategy for proactive fraud identification/prevention efforts.
- Reassess the feasibility and appropriateness of the planned 90-day revised target for completion of investigations not relating to sexual exploitation and abuse.

(b) **Review of the OIAI workplan and implementation progress:** The Committee was apprised of the progress of the 2018 OIAI workplan at each of its meetings and took note of the rationale for the changes made to the risk-based workplan. The AAC also discussed the impacts of the staff vacancies on the delivery of the workplan. At its December 2018 meeting, the Committee also reviewed the draft OIAI 2019 workplan and rendered its advice.

The Committee advised strengthening the OIAI workplanning process by:

- Strengthening the assessment of risks in selecting the headquarters/thematic audits (including the linkages with the audit universe); and considering results from alternative scenarios when revising the weights for factors used in selecting country office audits.
- Factoring lessons learned from investigations and explaining non-coverage of inherently high-risk areas.
- Assessing and including topics for proactive value-adding advisory work and maintaining a balance between audit and advisory work.
- Considering the use of a continuous transaction monitoring tool to report exceptions on a periodic basis and generate early red flags (building on early efforts of the Global Shared Services Centre and the Division of Financial and Administrative Management) together with an assessment of practices in other United Nations agencies (this should also help to reduce fieldwork on audits, and reduce the number of audit visits to small, non-high-risk country offices).

(c) **Review of periodic OIAI activity reports:** At each of its 2018 meetings, the AAC reviewed the periodic OIAI activity reports, paying attention to the progress of the workplan, key findings and the status of recommendations from internal audit reports. The AAC noted that the activity reports were comprehensive. The Committee was informed that as of December 2018, seven recommendations had been open for more than 18 months. These mainly related to (i) the issuance of revised policies for resource mobilization and the Contracts Review Committee; (ii) the roll out of the new budget formulation tool; (iii)

review of the process for managing multi-country non-thematic contributions; (iv) defining an accountability matrix for key roles within Programme Division clarifying roles, responsibilities and accountabilities; and (v) developing a framework for cash-based programmes (including procedures for data management). The AAC also monitored the status update on the publication of internal audit reports, including the cases of redaction of applicable internal audit reports and their conformance with the criteria specified in the relevant Executive Board directives.

(d) **Review of OIAI annual report and annual opinion:** Executive Board decision 2015/11 requested OIAI to include in future annual reports “[a]n opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization’s framework of governance, risk management and control.” At its first meeting in 2018, the Committee reviewed the OIAI annual report for 2017, including the opinion and rationale for its overall conclusions.

(e) **Investigations:** The Committee noted the exponential increase in caseload during the year (especially relating to sexual exploitation and abuse and workplace harassment) and had expressed concern about the delays in filling the investigator vacancies for most of 2018. The AAC was pleased to note that the previous vacancies were filled by the year end and UNICEF had approved new positions in the last quarter of 2018 (to be filled in 2019), to enable OIAI to handle the increased caseload.

The Committee advised UNICEF to:

- Ensure that, while needing to attend to the spike in cases relating to sexual exploitation and abuse and workplace harassment, investigative resources continue to be available for investigating allegations of fraud and to develop a strategy for proactive fraud identification/prevention efforts.
- Formulate a practical plan for early clearance of the investigations case backlog to ensure that evidence on the cases is not compromised and that the faith and credibility of the investigation function is maintained.
- Modernize the investigations function and deploy more contemporary investigative practices across its functions and procedures (including use of different skills like forensics, data analytics and efficiency enhancements).
- Strengthen synergies between investigations and internal audit to help the identification of frauds in audits.

(f) **External quality assurance of the internal audit function:** The Committee looks forward to the next external quality assessment of OIAI, which has been scheduled in 2019, and to a continuing constructive engagement with the office in 2019.

Evaluation Office

18. The Committee received briefings from the Evaluation Office during each of the three regular meetings in 2018. The Committee contributed to the revised evaluation policy by providing detailed feedback on the draft policy and was pleased to note that the Executive Board had approved the new policy in 2018 (which was followed by a new procedure issued by UNICEF to help implementation of the new policy). The Committee noted that implementation of the revised evaluation policy appeared to be on the right track.

The Committee advised UNICEF to:

- Monitor, promote and deepen the operational ownership, commitment and accountability of country representatives and regional directors (per the revised evaluation policy) to ensure the adequacy of independent evaluations in country offices, strengthening evaluation capacity in country offices, and augmenting the use of the lessons learned thereof.
- Collaborate with donors and the evaluation network of other United Nations agencies to include funding for evaluation within donor agreements, for its use in a manner permitted by the Executive Board's approved evaluation policy (and avoiding restriction of use of such funds only to specific grants) for a system-wide boost to the evaluation function and its funding.
- Consider the potential to reflect matters relating to joint evaluations and United Nations reform in the presentations to the Executive Board.
- Include the Evaluation Office's four-year workplan as an annex to the evaluation policy in the submission to the Executive Board, which would enable endorsement from the Executive Board for both documents.
- Make a comparative assessment of the implementation rate of recommendations made by the Evaluation Office with that of other United Nations agencies (to inform or respond to the Executive Board).
- Consider the use of pre-qualified consultants for evaluations to mitigate delays in the engagement of consultants, without restricting the ability of UNICEF to support national capacity development in evaluations.
- Effectively utilize the organizational budgets already allocated for evaluation towards adequately planned evaluation activities, while formalizing the pooled funding mechanism to enable providing the resources for achieving the 1 per cent expenditure target set by the Executive Board.
- Bolster the use of brief incisive executive summaries of evaluations (corporate and country offices) to ensure that management's attention is drawn to key issues identified and that the lessons learned are disseminated for application in other countries/regions in which the organization operates. The detailed evaluation findings can be shown in a full report (a suggestion is to use a similar format as the external audit reports, which include a summary of the main findings followed by a "long form report", which includes all the details).

Ethics Office

19. The Principal Adviser, Ethics, updated the Committee about the key ethics interventions in 2018, including training sessions and campaigns; contributions to policy formulation; administration of the Conflict of Interest and Financial Disclosure Programme; and providing confidential advice and guidance to staff on ethical issues. The discussions also covered the role of the Ethics Office in the ongoing response by UNICEF to protection from sexual abuse and exploitation, abuse of authority, and strengthening organizational culture.

- Clarify the specific roles and responsibilities of the Ethics Office, and the oversight role of the AAC over the Ethics Office, as part of the review of internal oversight offices by UNICEF (and in response to the Executive Board's request to UNICEF to conduct an assessment of the sufficiency of resources provided to the Ethics Office).
- The Committee advised UNICEF to review the mandate of the Ethics Office and to outline the conditions that merit exceptions to the principle of confidentiality of information shared by staff, without prejudice to the interested parties. This will ensure that the Ethics Office has an avenue to suitably communicate critical behavioural and integrity deviations shared with them (even if confidentially) and thus help to pre-empt the proliferation of such actions.

Ombudsman's Services

20. In addition to the aforementioned oversight offices, the Committee also met with the Office of the Ombudsman for United Nations Funds and Programmes.⁴ The AAC took note of their governance arrangements (intra-agency system) and was concerned with the very low level of staffing in the office. The largest number of cases managed by the Office of the Ombudsman for UNICEF – an increasing trend – related to issues dealing with supervisor-supervisee relationships, and the Committee noted that UNICEF was engaged in redressing such issues.

- The Committee advised UNICEF to formalize the term/tenure of the Ombudsman (in coordination with the other organizations served by the Ombudsman), to strengthen the independence of the office, provide commensurate resourcing support to the Office of the Ombudsman to enable it to adequately and effectively service the mediation and conflict-resolution needs of UNICEF, and to involve the office in major policy issues, such as review of policies related to sexual harassment.
- The Committee advised the Office of the Ombudsman to submit a briefing note to the UNICEF Executive Director outlining the alignment of its mandate with its resource needs (and the implications of the current resource gaps), the actual/estimated benefits of the interventions by the Office of the Ombudsman, and the recommended measures to mitigate the risks to meeting the office's objectives.

Joint Inspection Unit Review

21. In 2017, the Committee was requested by UNICEF to include within its mandate the review of the status of recommendations from the reports of the JIU. In April 2018, the AAC reviewed the 2017 UNICEF report to the Executive Board on the status of recommendations of the JIU reports up to December 2017 and provided advice on the pace of implementation.

The Committee advised UNICEF to review the pace of implementation of accepted recommendations from Joint Inspection Unit reports, since 50 per cent of the 32 open recommendations were from reports issued between 2008–2016 (3 from 2010 to 2012, 6 from 2013, 4 from 2014 and 3 from 2015).

⁴ The Office covers five United Nations entities: United Nations Development Programme, United Nations Population Fund, United Nations Children's Fund, United Nations Office for Project Services and United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women).

C. Reporting to the Executive Director and the Executive Board

Executive Board

22. The Vice-Chair of the AAC attended the 2018 annual session of the Executive Board,⁵ at which the 2017 annual report of the Committee was presented, along with the OIAI 2017 annual report. The Vice-Chair was available to respond to questions or comments from the Board related to the AAC annual report.

Executive Director of UNICEF

23. The AAC appreciated the presence of the Executive Director at its April 2018 meeting and benefited from her vision and the insights she shared during the meeting. The AAC submitted a summary of strategic advice (together with the minutes of the meeting) to the Executive Director after each of its three regular meetings in 2018, which were targeted to provide a focus on the most pressing topics arising from each meeting.

Joint meeting of the oversight committees of the United Nations system

24. The second meeting of the representatives of the United Nations system oversight committees, hosted by the Independent Audit Advisory Committee of the United Nations, was held from 11 to 12 December 2018 in New York. The meeting was attended by 25 participants representing the oversight committees of 20 United Nations system entities, including Ms. Lesedi Lesetedi, Chair, and Mr. Jayantilal Karia, member of the UNICEF Audit Advisory Committee. The meeting highlighted the need to focus on three system-wide themes of strengthening: (i) organizational culture (clarifying values and behaviours, providing policy support, and identifying zero-tolerance behaviours); (ii) management support for reducing instances of excessive time taken for completing cases relating to workplace sexual and non-sexual harassment, bullying and whistle-blower protection; and (iii) systems to attract and retain investigative talent, and to coordinate more effectively and use investigative resources collaboratively in a way that benefits the entire system. The meetings also emphasized that the system-wide risks to the escalating and potentially unsustainable costs of ASHI represent a considerable financial risk to the system; and the existence of confusion in some United Nations organizations among management and the respective governing bodies as to the role of oversight committees and how they fit into the governance architecture. A communication on the findings and recommendations of the joint meeting is being sent to the Secretary-General in his capacity as the Chairperson of the United Nations System Chief Executives Board for Coordination.

V. Conclusions and the way forward

25. The Committee met thrice in 2018 and met its mandate in providing advice to the Executive Director for improving effectiveness in multiple areas, including governance, enterprise risk management, management support functions and the oversight offices. The AAC also submitted its annual report for 2017 to the Executive Board.

26. The Committee recognizes the positive steps taken by UNICEF since the issuance of its previous annual report, especially in the areas of closer coordination and monitoring by senior Management of the recommendations made by of the Board of Auditors, issuance of the revised evaluation policy and procedure and its progression towards readiness for internal control assertion. The Committee, however, advises UNICEF to maintain attention in addressing risks and opportunities emanating from the United Nations reform, operationalizing effective enterprise risk management and strengthening the second line of defence, clarifying the organizational culture and core values for eliciting the desirable managerial attributes,

⁵ The Vice-Chair was in the United States during the time of the meetings and, for reasons of economy, represented the Chair of the AAC at the Executive Board session.

strengthening matrix management systems while nurturing human resources, monitoring and coordinating change management initiatives, and optimizing the nature and quality of assurance from the oversight offices.

27. Following the December 2018 meeting, the AAC shared the results of its self-assessment with the Executive Director. The results were largely positive, especially in the areas of collective member expertise, independence and openness, leadership, interactions with the oversight functions, reporting and secretarial support. The self-assessment also identified areas for augmenting the Committee's effectiveness, including the need for UNICEF to complete the revision of its current Charter; obtain the Executive Director's structured feedback on the Committee's effectiveness and increasing the frequency of meetings with the Executive Director; exploring the potential for a field trip by the AAC (in addition to the three regular sessions) to a regional office and a few country offices within that region; and clarifying the contribution of the Committee to the appointment, removal and performance assessment of the heads of the internal oversight functions of UNICEF.

28. The AAC appreciated the opportunity to meet with the Deputy Executive Director, Management, Ms. Fatoumata Ndiaye, at two of the three meetings in 2018 and is grateful for the support, information and insights shared, especially as she served as the most important senior management liaison for the AAC. The Committee is grateful for the quality of interactions with the Executive Director, the Deputy Executive Directors (Programmes, Field Results Group and Partnerships), the Regional Directors (Western and Central Africa, and the Middle East and North Africa), and the Directors of the several headquarters divisions/offices. The Committee looks forward to strengthening the dialogue and interaction further in 2019 and serving UNICEF in its advisory capacity to help the organization to deliver results for the children of the world.

29. The AAC thanks Mr. Paul Manning, former Director, OIAI, and Mr. Bolton Nyema, Deputy Director and Officer-in-Charge, OIAI, for their support to its work and for the constructive interaction in 2018. The Committee is also appreciative of the work of all other UNICEF staff members who facilitated or made presentations at its meetings.

30. Finally, the Committee is also particularly grateful for the professional support it receives from Mr. Sunil Raman, Committee Secretary, OIAI, in managing the AAC secretariat.

Annex

Audit Advisory Committee membership and schedule of meeting attendance in 2018

<i>Member name</i>	<i>Regular meetings</i>			<i>Comments</i>
	<i>25–27 April 2018</i>	<i>5–7 September 2018</i>	<i>3–5 December 2018</i>	
Ms. Lesedi Lesetedi	Attended	Attended	Attended	Member since February 2013, and Chair from July 2016 (her second term ends in February 2019).
Mr. Kamlesh Vikamsey	Attended	Attended	Attended	Member since October 2015, Vice-Chair from December 2017, and Designate, Chair effective February 2019 – serving on second term, which ends in October 2021.
Ms. Amalia Lo Faso	Attended	Attended	Attended	Member since February 2016; second term to commence from February 2019. (Designate, Vice-Chair.)
Mr. Jose Urriza	Attended	Attended	Attended	Member since August 2016; serving on first term, which ends in August 2019.
Ms. Saraswathi Menon	Attended	Attended	Attended	Member since June 2017; serving on first term, which ends in June 2020.
Mr. Jayantilal Karia	Attended	Attended	Attended	Member since June 2017; serving on first term, which ends in June 2020.