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## UNICEF management response to the annual report of the UNICEF Office of Internal Audit and Investigations for 2018

*Summary*

 The present report is submitted to the Executive Board in accordance with several decisions related to the audit and investigations function, the most recent being decision 2018/12. A status update on the implementation of the agreed audit actions that remained open for 18 months or more at the end of 2018 is presented in the annex.

 Pursuant to UNICEF Executive Board decisions 2018/3 and 2019/6 related to the UNICEF financial reports and audited financial statements and reports of the Board of Auditors, the present report provides an analysis of the potential for increasing the recovery of losses related to reported cases of fraud or presumptive fraud.

 UNICEF greatly appreciates the insights of the Office of Internal Audit and Investigations and the related observations and recommendations included in its reports. UNICEF is committed to the implementation of all the recommendations in a timely manner.

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## I. Introduction

1.      The present report has been prepared by the management of UNICEF in response to the principal findings and conclusions contained in the UNICEF Office of Internal Audit and Investigations (OIAI) 2018 annual report to the Executive Board (E/ICEF/2019/AB/L.3). Pursuant to UNICEF Executive Board decisions 2018/3 and 2019/6, the report also provides an analysis of the potential for increasing the recovery of losses related to reported cases of fraud or presumptive fraud.

2.      Management is pleased to note that the OIAI assurance opinion for 2018 is that, based on the scope of work undertaken, the UNICEF framework of governance, risk management and controls was generally adequate and effective during 2018. Satisfactory assurance opinions were also issued in 2016, 2017 and 2018. Management continues to recognize that there is scope for further improvement and is committed to further enhancing policies, procedures, systems, staff practices and performance-monitoring mechanisms to assure appropriate governance, risk management and control practices throughout UNICEF. This response includes management comments and updates on actions taken or planned to address the main recommendations identified in the audits and investigations undertaken by OIAI in 2018. This report should be read in conjunction with the UNICEF Office of Internal Audit and Investigations 2018 annual report to the Executive Board.

3.      UNICEF is committed to having an effective internal audit and investigations function that carries out its activities in accordance with the OIAI Charter and in conformity with the International Standards for the Professional Practice of Internal Auditing (of the Institute of Internal Auditors). This commitment is reflected in the OIAI 2018–2021 office management plan, which pays attention to priority risks and issues faced by UNICEF and is also reflected in the increased capacity of OIAI, with 10 new positions created, bringing the total number of authorized posts to 41 as of 31 December 2018.

4.      UNICEF continues to appreciate the quarterly reporting provided by OIAI to executive management and to the UNICEF Audit Advisory Committee (AAC). This reporting helps management to systematically monitor the implementation of the agreed audit actions. The Division of Financial and Administrative Management is tasked with follow-up and reporting on the internal audit recommendations across UNICEF. This focused effort led to relatively few recommendations open for more than 18 months. Further improvements are expected in 2019 as the follow-up process and regular reporting on outstanding actions continues to be enhanced.

5.      UNICEF also continues to welcome the valuable contribution of the AAC in reviewing and providing general guidance on OIAI workplans and reports, and in reviewing the independent oversight functions at UNICEF. Management has considered the advice provided by the AAC in its annual report for 2018 to further strengthen governance, risk management and control at UNICEF.

6.      Management notes that 17 internal audit reports of UNICEF activities were issued in 2018, with a total of 196 actions agreed between OIAI and UNICEF management. Consistent with 2017, 21 per cent of the actions were assessed as high-priority. Management recognizes that, in addition to the 17 reports completed in 2018, there were 7 reports at various stages of reporting as of 31 December 2018, 1 country office audit cancelled, and 1 audit and a child safeguarding review deferred from 2018 to 2019.

7.    Management notes the OIAI declaration that in 2018 it continued to operate in general conformity with international auditing standards as promulgated by the Institute of Internal Auditors. Management is further pleased to note that the Office has begun preparation for the next external quality assessment review, which is expected in 2019, in compliance with the international standard of conducting such a review at least once every five years.

## II.    Public disclosure of internal audit reports

8.    Management values the Office's continued public disclosure of internal audit reports, pursuant to the Executive Board decision 2012/13. The same decision provides for the Executive Director and the Member States to request the Director of OIAI to redact or withhold reports under certain conditions. Management continues to support the disclosure effort through timely clearance of reports for publication, facilitating continued accountability and transparency to stakeholders. Management notes that no audit reports were withheld from publication in 2018. Of the 17 audit reports issued in 2018, management notes that all 12 reports that were due for disclosure were in fact publicly disclosed on the UNICEF website[1] as of 26 February 2019. The remaining reports issued in December 2018 were under review for disclosure following the timeline for the established procedure. All internal reports due for disclosure had been published in 2018. Disclosed audit reports are also accessible through the UNICEF Transparency Portal[2] where UNICEF publishes a wide range of information on how and where the organization uses its resources.

## III.    Management actions and plans to address the overall internal audit results

9.    Management fully supports Executive Board decision 2017/10, which noted concern about areas of risk consistently identified in the audit reports and urged UNICEF to prioritize the implementation of actions that address them.

10.    Management values the insight from OIAI and notes the following significant thematic areas of improvement highlighted by the Office: vendor master data management; staff recruitment; immunization activities; and the following areas related to UNICEF country offices: progamme management; risk management; accountability to affected populations (AAP); prevention of sexual exploitation and abuse of authority; supply, logistics and asset management; and safety and security.

11.    UNICEF further appreciates the collaborative approach of reporting "agreed actions" that signals the acceptance by management to implement actions to address the reported findings. Management notes that in 2018, the 17 audit reports issued to UNICEF contained 196 agreed actions, of which 21 per cent were rated high priority. This is in comparison to 21 per cent and 23 per cent rated high priority in 2017 and 2016, respectively.

12.    UNICEF management was pleased to note that of the 17 audit reports issued in 2018, 2 were rated "unqualified", 12 were rated "moderately-qualified", 2 were "strongly-qualified" and 1 was rated "adverse". In its annual report, OIAI notes that unqualified or moderately-qualified ratings are considered satisfactory and that these

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[1] See www.unicef.org/auditandinvestigation/index_65818.html.
[2] See https://open.unicef.org.

ratings signal to management that relevant controls and processes are generally established and functioning as intended, with only relatively minor modifications needed. Management noted that 82 per cent of audit reports (14 reports) were awarded satisfactory ratings in 2018, compared to 70 per cent in 2017, 77 per cent in 2016 and 71 per cent in 2015.

13.   Management notes that in 2018, one country office report received an adverse rating while no offices had been rated adversely in 2017. UNICEF appreciates the focused attention to follow-up by OIAI on offices that receive adverse audit ratings, including the conduct of follow-up audits that provide management with assurance that agreed actions on improvement of controls and processes were implemented and sustained.

14.   Management carefully reviewed the key themes and recurring matters emerging from the audits undertaken in 2018 that may prevent UNICEF from achieving its current and future objectives.

## Significant results from thematic audits

### Vendor master data management

15.   Management notes the observations raised by OIAI regarding the administration of vendor master data. UNICEF has continued efforts to outline an optimal configuration of responsibilities on master data management processes among relevant UNICEF divisions. This effort has been particularly enhanced with the full operationalization of the Global Shared Services Centre (GSSC) in 2016. The objective has always been to ensure clear accountability regarding ownership and roles and responsibilities relating to the issuance of policies, procedures and guidance, monitoring and compliance, creation and updating of vendor master records, and establishment and enhancement of quality checks of such records, among other functions.

16.   Supporting the establishment of the GSSC, UNICEF issued the division of responsibilities among offices, divisions and the GSSC in 2016. Following the first complete operational year of the GSSC in 2017 and the full transition of additional functions such as master data management to the Centre, the UNICEF Comptroller issued a delegation of authority pursuant to the UNICEF Financial Regulations and Rules, which clarifies roles, responsibilities and ownership of processes, including vendor master data management.

17.   With strong awareness of the degree of inherent fraud risk within the master data management process, management is developing a risk-based transaction level monitoring system. Among other analytical tools, the system will support early detection of fraud in high-risk areas, which may include vendor onboarding and management. Following a 2017 clean-up exercise that removed over 38,000 inactive records and 1,500 duplicates, management has implemented an annual data clean-up exercise.

18.   Management, in consultation with the GSSC, is performing a risk-based review of the use of one-time vendors, permitted payees and alternative payees, and is seeking to establish clear conditions and requirements for their use. Conclusions of the reviews are anticipated to be documented in the policy and supporting procedures on master data management, which will: clearly identify the process and data owners and delineate their roles and responsibilities; stipulate the criteria for creating/updating vendor master records; clarify the assignment of the master data

management role in VISION; define the vendor account groups; clarify and document the use in VISION of one-time vendors, permitted payees and alternative payees; and establish conditions for the deactivation of vendors. A dedicated policy on master data management is planned for release by the end of March 2019, and additional measures are targeted for implementation by the second quarter of 2019.

**Immunization activities**

19.    Management acknowledges the achievements and positive practices highlighted during the audit of UNICEF immunization activities, and further notes the areas identified for improved management of the risks related to these activities.

20.    UNICEF is strongly committed to strengthening the management of immunization activities. By mid-2019, management will provide enhanced guidance to country offices that will require that donors and key partners are informed of additional risks related to implementing immunization activities in countries with very weak capacity and systems. The guidance will clarify accountabilities and responsibilities in such instances and in relation to the operation, limitations and risks related to the harmonized approach to cash transfers (HACT), as applicable.

21.    UNICEF and its partners have made important efforts in capacity-building and knowledge transfer to help government partners to assume full ownership of immunization activities over the longer term. With the support of the UNICEF Supply Division to country offices, management has strengthened vaccine forecasting and supply chain management and mitigated the risks related to inaccurate forecasting and stocks-outs. In 2016, the UNICEF Supply Division developed and shared with 18 Governments, the Visibility for Vaccines online tool, which facilitates visualization of vaccine levels, provides an early warning system for inventory management, enhances accuracy in forecasting and procurement and informs funding decisions.

22.    UNICEF is strongly committed to enhancing the management of immunization activities and to clarifying the shared accountabilities and responsibilities of the different concerned divisions of the organization. In 2019, UNICEF will also improve field-level monitoring, particularly application of the HACT framework and management of immunization funds. UNICEF will explore, as recommended by OIAI, the best way to communicate to donors and key stakeholders the limits and operations of HACT. Such communication will account for funds received by UNICEF and outline the risks, roles and accountabilities for the management of funds channelled through the organization in the context of countries with very weak capacities or systems, and the reliance on government implementing partners for agreed activities. Management will also highlight important ongoing engagement with global immunization partners such as the World Health Organization, to define alternative safe solutions to the management of waste materials generated by immunization activities.

**Staff recruitment**

23.    Management appreciates the opportunities for the improvement of staff recruitment processes, as noted by OIAI. Over the past three years, UNICEF has made significant investment in the human resources function and undertaken a comprehensive human resources reform initiative, with recruitment one of the key pillars, along with improved performance management and a strategic human resources business partnership.

24.    Further related to the recruitment pillar of human resources reform, the new UNICEF Staff Selection Policy, effective 1 February 2017, aims to increase the effectiveness and efficiency of the recruitment process. The UNICEF Division of Human Resources held webinars and provided consultations throughout the transition period in 2017 and launched the detailed 'Recruitment Reform Implementation Guidance Book' in December 2017. To enhance controls and improve recruitment, management is conducting a comprehensive review in 2019 to identify all remaining gaps of the recruitment reform, which will then be addressed through the Human Resources Centre of Excellence for recruitment. Led by the Division of Human Resources, management will implement a timebound and adequately resourced action plan to build the capacity of offices to manage the reform and will strengthen guidance as necessary. Management is also reviewing the segregation of duties, policy compliance checklists and challenges presented by the talent management system used in the recruitment process. UNICEF will enhance the existing guidance regarding the management of talent groups and provide additional clarity in terms of responsibilities for the strategic management, monitoring and oversight and use of talent groups. It will also explore the use of system solutions to manage candidate information.

25.    In 2019, management is evaluating steps to strengthen oversight of the recruitment process with the creation of a recruitment monitoring and evaluation function. The mandate, scope and approach of the function will be finalized in 2019; it will conduct post-facto reviews of recruitment processes, thus contributing to increased transparency and fairness of the process.

## IV.    Management actions and plans to address the recommendations from internal audits of country offices

**Programme management**

26.    UNICEF management appreciates the continued attention given to the adequacy and effectiveness of governance, risk management and controls with respect to key aspects of programme management, as incorporated in all 13 audits of country offices and 1 special audit carried out during 2018.

27.    Management highlights that 6 of the 14 audits in 2018 were done for activities in complex humanitarian programming environments and were among the top 10 offices based on expenditure in 2017. The offices in Central African Republic, Iraq, Nigeria, Somalia and Turkey were situated in Level 2 or Level 3 emergency environments. Management is pleased to note that, within such complex and challenging environments, controls and processes are generally well established and functioning as designed, with only relatively minor modifications needed.

**Workplans**

28.    Management notes that annual workplans are the first step in operationalizing a country programme that generates enhanced results for children. Workplans define annual targets and outline activities to be carried out over the implementation period of a country programme. In striving for sufficiently specific, measurable, attainable, reliable and time-bound results, management applies results-based management principles and practices. By December 2018, the management of the audited Nigeria Country Office had developed a standard operating procedure that included guidance for workplans and key elements of quality and sustainability. The specific and

achievable timelines and targets for outputs and indicators are now incorporated in the rolling workplans for the 2018–2022 country programme.

29.  Where baselines used for workplans differed from one period to another, the country office reviewed, clarified, contextualized and revised indicators in the Results Assessment Module of the InSight organizational performance management system. This effort was conducted as part of the 2018 mid-year review and will be conducted as part of the annual workplan review in 2019.

30.  To enhance alignment between various levels of workplans, the country office has developed a standard template for regional workplans that can be adapted for use at both sector and state levels.

31.  In the Iraq and Somalia Country Offices (both rated "moderately qualified"), management is working to ensure that rolling workplans clarify the detailed outputs, indicators, targets and baselines. In accordance with the UNICEF Programme Policy and Procedure Manual, the plans would include the activities to be carried out, the responsible implementing institutions, and timelines and planned inputs from both partners and UNICEF to strengthen joint accountability. In Iraq, field office-level governorate delivery plans were introduced in 2018 to create clarity on the expected results at the subnational level. Management will enhance the process of engagement and consultation with governorates prior to signing rolling workplans, to improve ownership of interventions and ensure that the targets in both the field office-level governorate delivery plans and the rolling workplans are aligned.

32.  In the Somalia Country Office, management is strengthening planning at the regional level, including for zonal workplans. To facilitate adequate reflection of the wide differences in the local programming context among the related Federal Member States in Somalia, the office is developing regional strategy notes, which are similar to programme strategy notes.[3] The regional strategy notes will support a guidance note already provided by management. The notes will emphasize the unique nature of these programing environments, which pose distinct challenges, including, but not limited to, access, security and recurrent natural and human-caused emergencies. They will also recognize that each region requires a specific approach and resources to address its challenges. The aim is to complete the regional strategy notes by the end of the second quarter of 2019. The office is further refining the zone office result structure to ensure that zone office workplans reflect the regional context and establish clear and relevant performance expectations aligned to the overall workplan.

**Planning data**

33.  Management notes the recommendations of OIAI regarding the documentation of sources of data used in workplans, and the methodology applied in obtaining planning data. In South Sudan, the office is making these improvements for the benefit of all offices in the country. To ensure that baselines and targets in programme documents cumulatively equate to the relevant outputs in the annual workplans and ultimately the results and resources framework of the country programme document,

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[3] UNICEF offices prepare programme strategy notes when developing a country programme, programme component or programme area. These internal documents provide hypotheses of how results will be achieved, how UNICEF will contribute to their achievement, and how the organization's contributions relate to those of other partners in achieving results for the most deprived children.

the office is implementing a process to ensure that contributions from offices are adequately considered in the determination of planning data.

34.   In the Somalia Country Office, OIAI commended the availability of data on the humanitarian response and the office's efforts to analyse that data. Where data gaps exist, such as in the areas of development and in tracking progress against achievement of the Sustainable Development Goals, the office is undertaking an analysis and developing a road map to address the gaps. To strengthen data collection in support of evidence-based programming, management agreed to contribute to inter-agency efforts to reinvigorate the United Nations monitoring and evaluation working group, which would advance efforts to address existing data gaps. Implementation is targeted for completion by mid-2019.

**Quality assurance and monitoring activities within the harmonized approach to cash transfers**

35.   Management notes the matters raised in the UNICEF Office of Internal Audit and Investigations 2018 annual report to the Executive Board in relation to strengthening the quality of assurance and monitoring activities within the HACT inter-agency framework. The recommendation was highlighted particularly in regard to managing implementing partners, among whom persistent weaknesses have been noted; assessing the capacity of local implementing partners and conducting assurance activities and related follow-up of recommendations; linking outcome results achieved to country programme outcomes; and ensuring that third-party monitoring is of good quality.

36.   Management is pleased to report on the proactive action it has taken to address these matters. In 2017, UNICEF launched eTools, an online platform that strengthens UNICEF country programme management for results. The platform tracks the extent to which country offices plan and manage capacity assessment and assurance activities related to cash transfers. It also simplifies office processes related to implementing partnership management and programme monitoring to help UNICEF staff to focus on achieving results in all programme contexts. ETools includes modules and dashboards for partnership management, trip management, third-party monitoring, financial assurance, the HACT assurance plan, civil society organizations (CSOs) as well as a document library.

37.   The application of eTools will strengthen monitoring activities and provide a repository for partnership documents – an integrated library that enables access to all documents related to a partner – and will also include an integrated solution for managing action points related to partnerships and a collaborative tool to manage and monitor results working with CSOs. Etools allows end-to-end management of financial assurance, including programmatic visits, spot checks and audit reports. It facilitates analysis of key risks and financial findings and enforces follow-up actions on ineligible expenditures. The third-party monitoring module in eTools facilitates management of third parties undertaking field monitoring (assigning visits, receiving reports), and tracking and analysis of recommendations/actions.

38.   In the Somalia Country Office, where there was no follow-up mechanism for recording the findings of assurance and related activities, management is rolling out eTools and implementing systematic monitoring of such findings and recommendations. The target completion date is mid-2019. In the Iraq Country Office, management is providing additional staff training for capacity development on conducting and documenting assurance activities. The findings from assurance

activities are now specific and timebound. Tracking tools have been developed to ensure that the recommendations arising from assurance activities are followed up and closed in an appropriate and timely manner. To strengthen the capacity of implementing partners, in 2018, UNICEF Iraq conducted training for more than 30 partners on fraud awareness, prevention, detection and response. UNICEF has also rolled out an anti-fraud strategy and related fraud-awareness training and guidelines.

39.    To address the gaps noted by the audit and to strengthen the quality of third-party monitoring, the Iraq Country Office is reviewing the terms of reference for vendors. The office is also transferring responsibility for the review of third-party monitoring reports from the Research and Evaluation Committee to the recently established HACT Task Force. Similarly, the Egypt Country Office (rated "moderately qualified") took steps in 2016–2017 to ensure consisting reporting and to monitor the implementation of assurance activities through the introduction of a programme visit report template and tracking sheets.

**Evaluations**

40.    Management noted the OIAI recommendation to ensure that planned evaluation actions are undertaken in a timely manner, are of adequate quality and are used to inform the design of new country programmes. At the organizational level, UNICEF has continued to enhance the tools used to manage the evaluation function by developing and implementing the PRIME (Planning, Research, Impact Monitoring and Evaluation System) software platform to replace the manual Integrated Monitoring and Evaluation Plans. The PRIME platform requires multiple aspects of quality assurance throughout the year, which helps to ensure that activities previously tracked through the Integrated Monitoring and Evaluation Plans are realistic and thereby improve the completion rate of activities. During 2018, additional features were added to the platform to enable more timely tracking of progress on evaluations. Management is further developing a new information system, the evaluation information systems integration, which will combine the evaluation and research functionalities by merging PRIME, the Evaluation and Research Database and the Evaluation Management Response Tracking System into a single platform. With roll-out to field offices planned in 2019, management anticipates a simplification of existing legacy systems into a unified workflow for planning and implementing evaluation activities.

41.    The Iraq Country Office acknowledged the postponement of the four evaluations proposed for 2018. Management noted that the evaluations had been reviewed and adjusted as part of the midterm review of the country programme. One evaluation had been cancelled for reasons of efficiency; to avoid duplicating the efforts of a major donor who was conducting a similar evaluation. In two other cases, the evaluations were cancelled due to a changed programme context. The fourth joint evaluation was postponed due to unfunded partner contributions. The office has since undertaken other evaluations, including a gender programmatic review, which has been completed, and a review of the decentralized delivery approach of the country programme (2016−2019), which is ongoing. These reviews will generate knowledge and identify best practices and lessons learned that should be maintained, improved and transferred to the new country programme.

42.  With support from the Middle East and North Africa Regional Office (MENARO), the proposed evaluation of the Smart City Initiative piloted in two governorates of Iraq will be implemented in a timely manner and consistent with the required quality standards. The 2018 OIAI audit visits to MENARO country offices

recognized that Iraq had taken steps in 2017 to strengthen the monitoring function by developing monitoring tools (to be released at the time of the audit) and upgrading its technical capacities.

**Risk management**

43. Management welcomes the insights of the OIAI regarding the organization's good practices in enterprise risk management (ERM). Since introducing ERM in 2009, UNICEF has transitioned to a more strategic, organization-wide, collaborative approach. Recognizing the need for a more holistic, strategic approach to risk, management has been strengthening the ERM framework by revising the existing ERM policy, improving ERM coherence; enhancing technology and reinforcing the risk management function globally – all key components of a well-functioning ERM system.

44. To enhance coherence, management is developing a new risk structure and taxonomy designed to improve risk identification, response and reporting. It is reviewing and integrating the various risk processes and tools to reduce duplication and simplify risk reporting. Annual risk assessments conducted by each office will include an embedded fraud risk assessment that guides offices through the process of identifying and addressing the risks related to fraud, waste and misconduct, in compliance with the UNICEF anti-fraud strategy, which was rolled out in 2018.

45. With respect to the technology to support ERM activities, UNICEF is implementing an integrated, online enterprise governance, risk and compliance solution. This new tool will provide greater transparency into the different types of risk inherent in the organization and enhance risk aggregation, analysis and reporting. Management is also leveraging the country management team and strengthening and repositioning the role of the chief of operations, which has been entrusted with the strategic responsibility of enhancing risk management to improve organizational performance.

46. With implementation of the revised ERM framework scheduled for completion by mid-2019, management anticipates better integration of planning, policy, procedure and risk management. It also foresees the enhanced management of exceptions to the procedure and the resulting reduction of risk, as well as integrated, multi-level risk reporting to facilitate risk-informed decision-making at the global, regional and country office levels.

47. UNICEF anticipates that these changes will improve risk management and guide and support the preparation of risk and control self-assessments by country and regional offices and headquarters divisions, in accordance with OIAI recommendations.

**UNICEF accountability to affected populations**

48. Consistent with the UNICEF mission and mandate, the Core Commitments to Children in Humanitarian Action and the humanitarian principles, UNICEF subscribes and adheres to the Inter-Agency Standing Committee Framework on Accountability to Affected Populations. The framework outlines key commitments for making programming at country level more accountable to affected populations and makes suggestions for scale up.

49. Senior management has already taken action to strengthen AAP across UNICEF, as a key contribution to the UNICEF Strategic Plan, 2018–2021. Building on the

UNICEF AAP framework entitled "putting people at the centre of humanitarian action", and the outcomes of a February–March 2018 consultation with regional and division directors, management has developed a business case and road map to systematize and scale up accountability across UNICEF in both stable and crisis situations.

50. With support from the Europe and Central Asia Regional Office and the Office of the Emergency Operations, the Turkey Country Office (rated "unqualified") is conducting a gap analysis of community feedback, with a focus on priority programmes. Management will determine the necessity of enhancing the complaint mechanisms after assessing the results of the analysis. Additionally, UNICEF Turkey is including activities related to AAP collaborations in the annual management plan and formulating appropriate indicators to regularly assess the uptake of feedback and complaint mechanisms. It will continue to provide funding for AAP activities in proposals and advocate for data exchange and analysis of beneficiary feedback mechanisms.

51. In offices where AAP activities are partially incorporated, management notes OIAI recommendations to adopt and mainstream a cohesive and integrated approach to their implementation. Based on the key services and programmes identified for assessment, management may include applicable AAP activities in workplans, proposals and relevant cooperation agreements. Management will also consider the OIAI observation on the possibility of leveraging other inter-agency activities, such as those related to end-user monitoring, protection from sexual exploitation and abuse, sexual harassment and abuse of authority, and community-based complaint mechanisms, in implementing accountability measures.

52. The measures being undertaken by management aim to continue to put affected families, children and adolescents at the centre of the work of UNICEF and have the potential to improve the quality and effectiveness of the organization's programmes and results.

**Protection from sexual exploitation and abuse and workplace abuse**

53. The UNICEF Executive Director has prioritized action to eradicate sexual exploitation and abuse and workplace abuse (including sexual harassment, harassment, abuse of authority and discrimination on all grounds) as these are unacceptable breaches of human rights and a betrayal of the UNICEF core values of care, trust, integrity, respect for diversity and accountability. During 2017–2018, UNICEF engaged in four critical workstreams to examine issues relating to protection from sexual exploitation and abuse, sexual harassment, workplace abuse and gender equality in the workplace, with a view to identifying gaps and strengthening prevention and response systems. Two panels of expert advisers delivered their final reports, which include concrete, specific and timebound recommendations for UNICEF. This includes the independent panel review of the UNICEF response to protection from sexual exploitation and abuse and the report of the law firm Morgan Lewis, which UNICEF commissioned to review internal sexual misconduct investigations over the period 2013–2017 with a view to strengthening the investigation processes and systems. The Independent Task Force on Workplace Gender Discrimination, Harassment and Abuse of Authority is expected to complete its work in June 2019. The task force reviewed UNICEF policies, reports and surveys, and directly engaged staff via a confidential email address, by phone, through focus groups and one-on-one interviews both at New York headquarters and in regional and country offices. To date, the task force has visited nine country offices in various

parts of the world, making special efforts to hear directly from staff to understand the workplace challenges they encounter. While the consultative process has taken longer than anticipated, preliminary recommendations have already been made to the Executive Director and are being acted upon. The final report from the task force will also include the recommendations of the Morgan Lewis review. Paired with insights provided by UNICEF staff and other stakeholders, the findings and recommendations of these reviews have informed management's response with concrete, specific and time-bound actions. Moreover, EDGE (Economic Dividends for Gender Equality), an independent organization that provides the leading global assessment methodology and business certification standard for gender equality, has reviewed UNICEF data, policies and practices against international standards. In June 2018, UNICEF received EDGE Certification. This certification puts UNICEF at the top 11 per cent of all EDGE certified organizations and makes UNICEF the first United Nations organization to earn the leading global assessment methodology and business certification standard for gender equality for its implementation of a framework for change and achievement of significant milestones towards building an inclusive culture of workplace gender equality.[4]

54.    In 2019, UNICEF launched the strategy to prevent and respond to sexual exploitation and abuse and sexual harassment. The strategy aims to help the individuals and communities that UNICEF and its partners serve to access the protection and assistance needed when an incident of sexual exploitation, abuse or harassment occurs. It is also designed to help UNICEF staff members and partners to obtain the support, respect and empowerment they need to deliver life-saving assistance to children and young people, in an environment free from abuse and harassment. It provides a commitment by UNICEF to help survivors of sexual exploitation and abuse and sexual harassment access the timely and confidential reporting mechanisms, investigation processes, assistance and support they need. The strategy is an important stepping stone towards achieving an organizational culture that has zero tolerance for sexual exploitation and abuse and sexual harassment; safe and trusted reporting mechanisms; a fair process for swift and credible investigations; and sanctions for violations. By outlining a survivor-centred response, the strategy emphasizes the importance of engaging and equipping individuals, communities, UNICEF personnel and partners as allies in preventing and responding to sexual exploitation and abuse and/or sexual harassment.

55.    The launch of the strategy by management reflects the proactive implementation of the comprehensive strategy recommended by OIAI. In operationalizing the strategy, management will continue to build the capacity of focal points for the protection from sexual exploitation and abuse and the roll-out of applicable mechanisms for reporting complaints. The strategy includes aspects related to the harmonization of guidelines on the inclusion of key protection from sexual exploitation, sexual harassment and abuse of authority in key documents, such as cooperation agreements and contracts, where applicable. For example, the organization has recently launched the UNICEF procedure for country and regional office civil society organization implementing partners in country offices such as the Central Africa Republic, and with the support of the regional office, management will explore the feasibility of rolling out a community-based complaint mechanism, in partnership with community networks.

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[4] See www.unicef.org/press-releases/unicef-becomes-first-un-agency-get-workplace-gender-parity-certification.

56. In 2018, UNICEF mandated training on the prevention of sexual exploitation and abuse and prevention of sexual harassment and abuse of authority for personnel and implementing partners. In 2019, UNICEF has incorporated into the organizational risk taxonomy a new key risk area entitled "wrongful and negligent behaviour by personnel and partners towards other persons," which will cover the risks related to these areas.

**Supply, logistics and asset management**

57. Management acknowledges the OIAI comments that controls for supply, logistics and asset-management areas were assessed as generally working well. UNICEF also welcomes the improvements highlighted in country offices, such as Uganda, related to the monitoring and timely closure of expired contracts, the establishment of systems to track open purchase orders, and the recording of goods receipts and upcoming deliveries; and the adequacy of the membership of the Contracts Review Committees.

58. UNICEF reiterates its commitment to the ongoing enhancement of the supply, logistics and asset management functions that are critical to and facilitate delivery of programme supplies to beneficiaries.

59. In 2019, management is building on existing efforts to enhance procurement, particularly in terms of ensuring comprehensive planning for the procurement of both goods and services and its linkage to country office workplans. Similarly, country offices, including Papua New Guinea (rated "adverse"), are implementing actions to strengthen end-user monitoring mechanisms for gathering feedback from beneficiaries, to ensure that programme supplies are delivered and used for their intended purpose. Country-specific oversight efforts also include improving monitoring of outstanding purchase orders, goods receipts and inbound deliveries in the Uganda Country Office; enhancing communication with implementing partners; and using performance evaluations of vendors to establish more realistic targets for timing and delivery of goods and services in the Central African Republic Country Office.

60. UNICEF is also reinforcing the role of the Contracts Review Committee to improve procurement processes. Consultations on and revision of the Contracts Review Committee procedure are currently in the final stages. This effort aims to improve the committee's approval process and to clarify application of the committee as an instrument in mitigating risks and supporting procurement across the organization. Compliance reviews have been incorporated to reinforce the monitoring role of the committee mechanism. Additionally, the revised procedure provides for inclusion of government authorizations or approvals as part of the documentation to be submitted to the committee, for example, in the case of construction contracts. This requirement will strengthen planning and monitoring of construction projects to address the related agreed actions. Implementation of the revised procedure is targeted for the first quarter of 2019. UNICEF will also give attention to ensuring adequate insurance for assets against hazards. Management continues to explore solutions to improve inventory systems in country offices to enhance supply and warehouse store management.

**Safety and security**

61. The safety and security of UNICEF staff is a priority consideration for management and is further heightened where staff are working in locations that

present higher inherent security risks due to ongoing conflicts or other hazards. Management acknowledges the OIAI recommendation for clarification on dealing with the military as it relates to programmatic activities. In this regard, by December 2018, management had clarified and documented the programmatic areas when and where the military can be used, in line with the guidelines of the Office for the Coordination of Humanitarian Affairs. UNICEF has further strengthened security and preparedness plans as part of this effort and will continue to do so on an ongoing basis.

62. In 2019, the South Sudan Country Office is re-establishing a security output with a dedicated budget and related indicators in its 2019–2021 country office results framework and workplan activities. The office is also consolidating the recommendations of the security improvement plans and implementing a centralized tool to monitor security enhancements.

63. By the end of 2018, the Papua New Guinea Country Office had implemented a mechanism to ensure that security clearance was obtained by travellers as a prerequisite for the approval of official travel. This prerequisite is further clearly articulated in the revised standard operating procedure for the travel process that was issued to all staff in the country office at the end of 2018.

## V. Anti-fraud strategy, financial loss and recovery

64. The total financial loss for UNICEF, substantiated by OIAI during 2018, amounted to $437,754 (2017: $2,150,093). The loss related to three cases of burglary, robbery and theft of UNICEF property or funds amounting to $113,162; one case related to entitlements fraud amounting to $14,459; two cases related to fraud and forgery amounting to $7,141; three cases related to fraud involving misuse of programme funds by third parties (implementing partners) amounting to $301,191; and one case of Medical Insurance Plan fraud amounting to $1,801.

65. As mentioned above, $301,191 of the substantiated loss was for three cases related to implementing partners. Efforts to recover the losses already indicate that recovery is doubtful in all three cases and the balances are being reviewed for write-off purposes. UNICEF has acted to implement the OIAI recommendation by barring these partners from doing any further work with the organization.

66. Of the $113,162 related to cases of burglary, robbery and theft of UNICEF property or funds, $146 related to an incident of looting by unknown parties and hence is not recoverable; $828 was fully recovered; and $112,188 related to diversion of supplies from the UNICEF warehouse, which resulted in the dismissal of the concerned staff member.

67. UNICEF recovered $14,459 related to entitlements fraud by a staff member. Of the $7,141 related to fraud and forgery, $7,000 was not substantiated for the involvement of a UNICEF staff member, while the $141 could not be substantiated as the staff member disappeared and subsequently abandoned their post. While efforts to recover the $7,000 continue, full recovery of the $7,141 lost is doubtful due to the circumstances of the two cases.

68. UNICEF also investigated, through an independent organization, project-specific cases of fraudulent transactions. Of the 184 cases investigated for the project, 87 cases were substantiated as fraudulent transactions, amounting to an equivalent of $84,461. UNICEF recovered amounts related to 85 of the cases, for a total of $84,359, with an amount of $102 related to two cases being written off as irrecoverable. This

represented a 99.9 per cent rate of recovery. The Yemen Emergency Cash Transfer project management unit that implements this project demonstrated best practice in fraud risk management, prevention of aid diversion and zero tolerance towards fraud and corruption, in line with UNICEF policies. The success of this project and the lessons learned around fraud risk assessments, fraud prevention, detection and response are being incorporated in the implementation of the anti-fraud strategy.

69. For 2018, inclusive of investigation reports from both OIAI and the project-specific investigation organization, a total of $522,215 was lost due to fraud and $99,346 was recovered; $422,869 is doubtful for recovery and will be written-off after due diligence. UNICEF took action in all the fraud cases reported and substantiated.

70. Related to prior periods, of the $4.16 million cumulative amount lost due to fraud for 2015, 2016 and 2017, 73 per cent ($3.02 million) related to implementing partners. An amount of $138,000 had been recovered from implementing partners, with the rest of the balances in doubt as to their recoverability. An amount of $432,101 was lost due to a fire in an UNICEF inventory warehouse, which was suspected to be arson. Related to this loss, $15,000 has been recovered through insurance coverage, while recovery of the rest of the balance is doubtful due to the circumstances surrounding the fire.

71. This contrasts with recovery rates for fraud involving staff members where UNICEF has recovered most of the funds lost. In proven cases of fraud, the organization has much more latitude to take disciplinary action and ensure funds are recovered from the entitlements of the concerned staff members.

72. As previously reported in the UNICEF management response to the report of the United Nations Board of Auditors (E/ICEF/2019/AB/L.2), progress is being made in disciplinary action and recovering funds lost due to fraud perpetrated by staff members. However, less progress has been made on cases of fraud by implementing partners, as such cases have been referred to national prosecution authorities. The implementing partners with whom UNICEF is experiencing challenges with recovery are based in L-2 and L-3 emergency countries, hence the challenges in recouping funds, particularly given the lack of timely prosecutions. UNICEF has acted on these cases by blocking these partners from implementing any further programmes. As part of the anti-fraud strategy, UNICEF is jointly working with the Office of the United Nations High Commissioner for Refugees, the lead agency in this initiative, as well as other United Nations funds and programmes, to develop dedicated fraud awareness training for implementing partners. The training will be recognized among all the participating United Nations agencies.

## VI. Management comments on the UNICEF Audit Advisory Committee 2018 annual report to the Executive Board

73. UNICEF management continues to appreciate the valuable insights of the AAC, which contribute to the effective, independent advisory oversight of the organization. The Executive Director, Deputy Executive Directors, division directors and other members of the UNICEF management team welcomed the opportunity to interact with the Committee during the year. The three AAC meetings held in 2018, and the related reports issued, resulted in valuable strategic advice being provided to the Executive Director.

74. In 2018, management appreciated the acceptance by the AAC of the request to expand the role of the Committee to include the evaluation function, and the addition of one new member to assure expertise in addressing this new role. In this regard, UNICEF management and the Executive Board approved the revised evaluation policy (E/ICEF/2018/14) in 2018. The policy articulated the role of the AAC in providing oversight over the evaluation function at UNICEF. With a view to finalization in 2019, management is currently reviewing the revised Charter of the AAC that will reflect this expanded role. The revised Charter will better align the work of the AAC with the UNICEF Strategic Plan, 2018–2021, the evolving professional standards for audit advisory committees, and the priorities of the Executive Director.

75. Management values the committee's engagement with the regional offices for the Middle East and North Africa and West and Central Africa in 2018. These were in addition to the office visits to the home countries of the Committee members, along with the visits to Europe and Central Asia Regional Office and the GSSC carried out in 2017. In agreement with the Committee's advice on strengthening corporate support to regional and country offices, management is pleased to highlight specific reference to the Yemen Country Office, through which management undertook a mission to Amman (Jordan) to support the dedicated project management unit implementing the emergency cash transfer project for Yemen. Good practices that can be replicated in other programmatic areas were noted in the mission report shared with the Committee. Management continues to provide support to the Yemen emergency cash transfer project and notes that additional funding for this initiative has been received from donors for further implementation in 2019, which signals satisfaction with implementation of the programme by UNICEF.

76. The Executive Director, on behalf of UNICEF management, welcomed and encouraged the Committee's contributions in many areas, spanning accelerators for the 2030 Agenda for Sustainable Development, the humanitarian-development continuum, the Young People's Agenda and innovations, especially in the areas of partnerships, including those with other United Nations funds and programmes. UNICEF noted the Committee's interest in various matters of organizational importance, including the implications of repositioning of the United Nations development system (United Nations reform), the response to sexual exploitation and abuse and child safeguarding and protection, HACT, enterprise risk management, financial management, information and communication technology governance and management, and potential legal risks that may affect the organization. Management welcomed the opportunity to brief the Committee on these areas and to continue engagement on strategic matters related to these and other areas, as applicable.

77. Management appreciates the Committee's consideration of the evaluation, and the audit and investigations functions at UNICEF. Management also appreciates the review of the implementation status of the recommendations made by the United Nations Board of Auditors to UNICEF as well as the meetings the AAC held with the Board of Auditors in 2018. Management is grateful for the Committee's thorough review and contributions provided to UNICEF in relation to the draft 2017 financial statements. Management recognizes the importance of these achievements and the effort that went into providing those comments. The Committee's feedback and guidance contributed to UNICEF receiving an unqualified audit opinion for the year ended 31 December 2017.

# Annex

## Progress update on audit recommendations that remained unresolved for more than 18 months as of 31 December 2018

| *Agreed action in the OIAI 2018 annual report* | *Progress update* |
| --- | --- |

### Audit of the Public Sector Alliances and Resource Mobilization Office (PARMO), issued December 2013 (two recommendations)

Two recommendations pertain to the agreement by the Office of the Executive Director to issue an Executive Directive outlining the strategic vision and implementation framework for the UNICEF resource mobilization function; outlining the roles and responsibilities assigned to the Public Sector Alliances and Resource Mobilization Office (now the Public Partnerships Division, or PPD) and other UNICEF organizational units; establishing a strategy and requirements to improve the quality and timeliness of donor reports at the global level; and clarifying the responsibilities of PPD and regional offices regarding oversight and support on donor reporting.

As of January 2019, led by PPD, the revised accountabilities framework had been updated in the new resource mobilization strategy for the UNICEF Strategic Plan, 2018–2021. The Division of Private Fundraising and Partnerships (PFP) and PPD had completed drafting of the revised policy on resource mobilization, which is expected to be issued in the first quarter of 2019. The recommendations will be closed upon the issuance of the revised policy.

### Audit of the management of service contracts in UNICEF headquarters divisions, issued June 2015 (two recommendations)

Two recommendations pertain to the agreement by the Division of Financial and Administrative Management (DFAM) to revise the Contracts Review Committee policy and identify systems for transaction-level monitoring (TLM), including managing risks of potential splitting of contracts and solutions for recording multi-year contractual arrangements through purchase orders within VISION.

The Division of Financial and Administrative Management, working with the UNICEF Supply Division, has revised the Contracts Review Committee procedure, and it will be issued before the end of the first quarter of 2019 at the conclusion of wider consultations. The pilots for the new budget formulation tool and the transaction-level monitoring tool were completed (and the next iteration of TLM scripts, which include tests for contracts splitting, began). The full roll-out of the systems is expected to be done by the second quarter of 2019. Both recommendations will be closed after completion of the proposed actions.

| *Agreed action in the OIAI 2018 annual report* | *Progress update* |
| --- | --- |

## Audit of the Programme Division, issued September 2016 (one recommendation)

One recommendation pertaining to Programme Division (PD) to review and document the process for managing multi-country, non-thematic contributions, clarified the division of labour between PD and the regional offices on quality assurance, ensuring clear instructions to DFAM on the reports required strengthened monitoring of the unallocated funds and their timely allocation.

The full actions of the recommendations have been implemented and OIAI has confirmed that this recommendation will be closed.

## Audit of the Programme Division, issued September 2016 (one recommendation)

One recommendation pertaining to PD to enhance clarity on its role and purpose through an accountability matrix that:

– Clarified roles, responsibilities and accountabilities for key positions within PD;
– Indicated when divisional subject experts (e.g. the Division of Data, Research and Policy and the Evaluation Office) should be consulted/involved;
– Provided references and focal points for inter-divisional coordination with other headquarters divisions.

As of January 2019, PD had implemented this agreed action via an accountability matrix that clarifies the roles and responsibilities of the PD sections and Director's Office, as well as inter-divisional accountabilities. Management considers this recommendation to be implemented. Implementation action is under review with OIAI for confirmation and closure of the recommendation.

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