

UNICEF Audit Advisory Committee

2015 Annual Report

13 April 2016

I. Introduction and overview

1. The UNICEF Audit Advisory Committee (AAC, or the Committee) is an independent external oversight advisory body that advises the Executive Director and informs the Executive Board on the conduct of management responsibilities in accordance with the UNICEF Financial Regulations and Rules, the United Nations Staff Regulations and all other directives, policies and procedures applicable to UNICEF.

2. In undertaking its duties, the AAC is mindful of the increasing number of humanitarian crises to which UNICEF is required to respond, and their impact on financial and human resources. The AAC held face-to-face meetings in March, July and December 2015. For each meeting, the management of UNICEF provided the AAC with all requested materials and facilitated the participation of the relevant UNICEF officers. The Committee met with the Executive Director during its December 2015 meeting. While the incumbent in the position of Deputy Executive Director (Management) changed during the year, the person in that position engaged with the Committee at two of its meetings, and another member of the UNICEF senior management team served as the main UNICEF management liaison at the third meeting. Other UNICEF staff also made valuable presentations at the AAC meetings.

3. The observations of the AAC are organized and presented in relation to its overall mandate:

- (a) Review of the functioning of the UNICEF oversight system;
- (b) Review of the quality and integrity of UNICEF accounting and reporting practices, internal control systems, risk management and governance practices;
- (c) Review of the effectiveness of the internal and external audit processes;
- (d) Reporting of the results of the above reviews to the Executive Director and the Executive Board.

4. The sections that follow present highlights of the work performed by the AAC for each of the mandate areas.

II. Review of the functioning of the UNICEF oversight system

5. The AAC review of the functioning of the UNICEF oversight system comprises reviews of the effectiveness of the internal and external audit processes, the Evaluation Office and the Ethics Office. Also included here are interactions with executives responsible for financial, management and programme accountability. The results of the AAC review of the internal and external audit processes are presented in section V of this report.

A. Updates on management initiatives

6. As in prior years, during 2015 the AAC received updates from the Deputy Executive Director (Management) on the topics considered in the UNICEF Global Management Team, as well as topics considered and decisions adopted at Executive Board sessions. The Committee also received updates at each meeting on the implementation of the Global Shared Services Centre (GSSC), for which the process of implementation is expected to continue into 2016. The Committee believes that the risks inherent in this change were well outlined in the planning information presented. The challenge for UNICEF going forward will be to continue to manage those risks, including those related to new personnel and the adoption of new information technology (IT) systems. The Committee remains concerned that, post implementation, change management for all of UNICEF operations will require more attention as the effects of the GSSC changes begin to have an impact across the organization.

7. Due to the importance of the efforts to implement the harmonized approach to cash transfers (HACT), the Committee requested and received briefings at each of its 2015 meetings on the implementation of measures to strengthen how HACT is being applied in UNICEF operations. The Committee appreciates the progress made in measures to strengthen implementation of HACT in UNICEF, and particularly in monitoring mechanisms. Further discussion of HACT and its relationship to other governance mechanisms is found in section III below.

B. Information technology systems

8. In its 2014 report, the Committee encouraged management to pay attention to important aspects of the inSight dashboard system, which had been showcased to the Committee as underpinning both financial and programme reporting functions. The Committee encouraged UNICEF management to focus on (a) data accuracy; (b) ownership of data for knowledge management and understanding of outcomes; and (c) assuring a robust IT governance system.

9. At its July 2015 meeting, the Committee received a comprehensive briefing on IT systems and overall IT governance activity. At the completion of the meeting, the Committee advised that the historical approach to IT systems development, which allowed for the creation of systems sponsored by UNICEF divisions outside a formal IT governance structure, contains risks of incompatibility, inefficient use of limited resources and future sustainability. The Committee's briefing on HACT revealed added work on revised e-tools that will supplement the inSight system. These systems, based on country office models, contain the same risks noted above and require some rationalization with the requirements of other business units also engaged in managing systems for monitoring and accountability measurement.

10. The Committee looks forward to the completion of the audits under way on IT field infrastructure and overall IT governance. The appointment of a new Chief Information Officer will address some of the issues related to robust corporate governance of IT systems. The Committee will continue to focus on IT governance in 2016.

C. Evaluation Office

11. The Committee received a briefing from the Director of the Office of Evaluation at its March 2015 meeting, and received the draft annual report for 2014 on the evaluation function in UNICEF, which was presented to the Executive Board when finalized. The Committee takes

note of the Executive Board decisions regarding the evaluation function, and in particular the need for management to continue to improve its follow-up to the evaluation recommendations. The AAC has requested that the Director of the Evaluation Office keep the Committee informed of the progress being made by management to address implementation of the evaluation recommendations.

D. Ethics Office

12. The AAC received a briefing from the outgoing Principal Adviser, Ethics, in July 2015. As a follow up to references in the AAC annual report submitted to the Executive Board on the need to improve the “speak-up” culture in UNICEF, the Committee was briefed at its December meeting by the Division of Human Resources on an array of efforts to improve this culture at all levels in the organization, and to continue to measure employee comfort levels with raising concerns without fear of repercussions. The Committee looks forward to the results of interim surveys to measure the effects of training and other interventions undertaken to improve this culture within UNICEF.

13. The Committee also looks forward to working with the newly appointed head of the Ethics Office in the coming year.

E. Policies on sexual abuse and exploitation:

14. The Committee requested a briefing from relevant UNICEF offices on the steps being taken to assure that all staff understand the policies on prevention of sexual abuse and exploitation (PSEA) and their responsibilities when they receive allegations of this grave misconduct. The request was made in the context of media reports of alleged exploitation and abuse, particularly related to children, where a United Nations role or responsibility had been highlighted. The Committee welcomed that UNICEF is actively addressing this issue, including through participation in an inter-divisional working group on accountability to affected populations. The AAC supports proposals to strengthen efforts by UNICEF in this area, including by invigorating the network of PSEA focal points in the organization, and by specifically addressing this important issue in the follow-up training, and through other efforts to promote a speak-up culture.

III. Review of the quality and integrity of UNICEF accounting and reporting practices, internal control systems, risk management and governance practice, including the review of financial statements.

A. Review of the 2014 financial statements, United Nations Board of Auditors’ management letters and key recommendations

15. The draft 2014 financial statements were submitted to the AAC in April 2015. Due to the timing of the receipt of the draft financial statements and the tight deadline for their publication, the AAC performed a high-level review that did not result in any suggestions for changes in the statements by the Committee. The AAC is pleased to note that the financial statements received an unqualified opinion from the United Nations Board of Auditors.

16. At each meeting in 2015, the AAC reviewed the recommendations of the external auditors that had been accepted by management and progress against their implementation. The AAC has noted that several recommendations relate to follow-up actions needed for issues cited

in the 2013 report, as well as to suggestions for increased internal control and strengthened oversight. In addition to follow up from previous years' recommendations regarding attention to cash transfers and reserve policies for the National Committees for UNICEF, the AAC notes new findings related to the use of consultants and to assuring integrity in data systems. The ACC requested that it be kept informed of management's progress in implementing the recommendations made in the Board of Auditors' report, and will be following up with UNICEF on the new findings.

B. Internal control systems, risk management and governance

17. The Committee notes Executive Board decision 2015/11 adopted at the 2015 annual session of the Executive Board, 16-18 June 2015, which included a request that the Office of Internal Audit and Investigations (OIAI) include in future annual reports an opinion on the adequacy and effectiveness of the organization's framework of governance, risk management and control. The Committee reviewed the draft opinion at its first meeting in 2016, at which OIAI provided the rationale for its overall conclusions. The Committee provided comments to OIAI on how the additional background information on its 2015 audit work might provide additional context for the overall opinion.

18. The AAC has advised UNICEF that the three areas outlined in the Executive Board request constitute the "three pillars of assurance" in an organization, and that the two pillars of governance and risk management require a strong tone at the top of an organization in order to be successful.

1. Risk management

19. The AAC had recommended in its 2013 annual report that UNICEF management adopt a statement of internal control that would each year present an overall management assertion regarding internal control. In its response to the AAC report, UNICEF management noted that it would give serious consideration to this suggestion and further noted that UNICEF was working within the United Nations system on common standards for statements of internal control. While United Nations-wide efforts take shape, the AAC has noted for management that a strong risk management system in UNICEF would be a key factor in supporting such a statement.

20. During 2015, the AAC received briefings from UNICEF on the Enterprise Risk Management (ERM) system. As a result of these briefings, the AAC advised management that strong corporate leadership is required for the identification of organizational risk and for the creation of a robust system that rationalizes all of the ongoing risk identification and risk management efforts in UNICEF. The AAC encouraged the convening of a corporate risk management committee to provide leadership for the ERM effort. Such a committee would not only provide the needed corporate buy-in, but would also provide a framework of support for ERM so that it can be a strong part of the overall governance system. The Committee has since been informed that the Global Management Team will serve this function. In 2016, the AAC will continue to engage with UNICEF management to receive further information on the systems and structures that support the ERM process.

21. The AAC also emphasized to UNICEF the importance of relating identified risks to a coherent accountability and governance framework in which the risks identified in ERM are managed, and that can also serve as an overall accountability framework for the several offices working on oversight and monitoring efforts.

2. Accountability and governance framework

22. During its December meeting, the AAC was briefed on the ongoing work by the Field Results Group on an overall accountability system, and by the Division of Human Resources on a new performance-based assessment system. The Committee believes these new systems will contribute significantly to the “tone at the top” in UNICEF, and looks forward to further briefings on these efforts in 2016.

23. As noted in paragraph 7 above, the Committee received briefings on HACT, in which it was reported that it has developed into a system for overall partnership management. The AAC was provided with extensive metrics about the status of HACT implementation and learned of efforts by the Field Results Group to develop new e-tools to support monitoring and oversight. A continuing challenge for HACT – and for other efforts such as the GSSC – will be how to assure field accountability and to determine how much field discretion is advisable in terms of the adoption of supporting systems, or adherence to corporate policy. A related challenge is the overall capacity of field offices to comply with corporate policies. These are all aspects of an overall governance system that should be clearly outlined in the organization.

24. The Committee has also noted that a phased approach will be adopted for implementation of HACT, with efforts in 2016 focused on achieving compliance with overall HACT policy, while in 2017 the focus will be on the quality of those efforts. Cash transfer issues remain a large percentage of the OIAI country office report findings as well as the United Nations Board of Auditors’ country office report recommendations. Thus, while the policy is clearly outlined and the requirements set, actual implementation of HACT remains a work in progress and is a key area for overall governance in UNICEF.

IV. Review of the effectiveness of internal and external audit processes

25. The highlights of the work of the AAC during 2015 in this mandated area included the following:

A. Internal audit

1. Follow-up on the recommendations of the external quality assurance on the internal audit function

26. The external independent review of the audit function, which was conducted in 2013, resulted in a number of recommendations that were reviewed at each AAC meeting in 2015 for the achievement of compliance. At the end of 2015, the majority of the recommendations had been implemented. At the first AAC meeting in 2016, the two remaining recommendations for action by OIAI were found to have been resolved with action by the Director of OIAI. One outstanding recommendation for action by the AAC is to initiate revisions to its charter to reflect its role in providing input to the annual performance evaluation of the OIAI Director.

2. Review of the implementation of the 2015 OIAI workplan

27. The AAC reviewed and endorsed the OIAI final workplan for 2015, which covered both the audit and investigations functions of OIAI. The Committee noted that the level of resourcing was reasonable relative to the work to be undertaken. The results of AAC monitoring of the progress of implementation of the workplan are summarized below.

3. Review of quarterly OIAI activity reports

28. At each of its 2015 meetings, the AAC reviewed the quarterly OIAI activity reports, paying particular attention to the volume of items carried over from previous periods and the overall ageing of audits and investigations. The AAC would like to commend OIAI for the comprehensive nature of its quarterly reports and the summary analysis of findings and recommendations contained therein. The AAC notes the following issues that it has raised with OIAI regarding workload management and productivity:

(a) The OIAI is proposing to change its key performance indicator for the timeliness of completion of audits. The OIAI rationale is that lengthening of the time for completion to 120 days is partially related to the longer time frames needed to reach an “agreed action” status from management for its audit recommendations. The AAC understands the value of the completed action approach, but would encourage management to initiate more timely responses to the OIAI recommendations for agreed actions for all recommendations made.

(b) The AAC reviewed the status of recommendations from OIAI audits that have been open for a longer period, and notes that the number of these recommendations has been reduced in the past year but that, in some instances, the time frames for the remaining open recommendations are quite long. The AAC encouraged OIAI to further scrutinize the longstanding recommendations, particularly those that relate to headquarters units, or to IT systems such as SAP. The Committee encourages UNICEF management to focus on the issues identified in these recommendations, to assess their continued relevance, and, in cases where issues continue to be relevant, to work with accountable offices for timely resolution.

29. The AAC would like to thank Ms. Fatoumata Ndiaye and Mr. Daniel Temme, who respectively served as OIAI Director and Acting Director in 2015, for their assistance to the Committee’s work. The Committee looks forward to working with Mr. Paul Manning who assumed the post of Director, OIAI, in early 2016. The Committee is also particularly grateful for the support it receives from Ms. Louise Wolfgang who provides secretariat services for its work.

4. Public disclosure of internal audit reports

30. In accordance with paragraph 27 of the OIAI internal guidelines that govern the public disclosure of internal audit reports, the AAC has at each of its meetings examined the reasons for the redaction or non-disclosure of certain internal audit reports. Paragraph 27 charges the Committee with reviewing the reasonableness of the basis for the determination of any redactions or withholding. The AAC notes that most audits were disclosed in a timely manner within all policies and guidelines. The Committee has brought to the attention of UNICEF one disclosure that has been held at the Executive Office level for nearly a year, but without supporting information provided during the year as to the rationale for the delay, could not evaluate this. In its July and December meetings, the Committee requested further information

on this disclosure and anticipates getting resolution on this issue in 2016. The AAC encourages management attention to more timely action on disclosure issues.

B. External audit

1. Meeting with the United Nations Board of Auditors

31. During its March 2015 meeting, the AAC met with the United Nations Board of Auditors, and looks forward to continued and more frequent interactions with the Board. The Committee has outlined its review of and comments on the financial statements as well as the recommendations of the Board of Auditors in Section III (A) above.

V. Reporting to the Executive Director and the Executive Board

A. Executive Board

32. Following the practice of the past two years and motivated by reasons of economy, an AAC member based in the United States represented the Chair of the AAC at the annual session of the Executive Board, at which the 2014 annual report of the Committee was presented along with the 2014 annual report of the OIAI.

B. Executive Director of UNICEF

33. The AAC has submitted a specific summary of strategic advice to the Executive Director at the end of its two most recent meetings, which it hopes provides a focus on the most-pressing subjects that arose from each meeting. These memorandums supplement the minutes of each meeting, which are also provided to the Executive Director. The AAC appreciated the presence of the Executive Director at its December 2015 meeting.

C. UNICEF senior staff

34. The AAC also appreciated the opportunity to meet with the incumbent Deputy Executive Director (Management) at two of the three meetings in 2015. The Committee is grateful that the support and the important information and liaison function that this position provides for the Committee has continued with the transition to the new Deputy Executive Director (Management).

35. The Committee is also grateful for the time spent with the Committee by the Deputy Executive Director (Field Results), and has signalled that it would like an ongoing interaction with this office due to its central role in accountability and governance systems.

36. Further, the Committee is appreciative of all other staff members for their reports and for the presentations made at its meetings.

VI. Membership of the AAC during 2015

37. The AAC comprises five external members, who are independent of both UNICEF and the UNICEF Executive Board. The membership of the AAC changed during the year, with the end of Mr. Charles Boamah's term of service. In October 2015, Mr. Kamlesh Vikamsey of India was appointed to replace Mr. Boamah.

38. The Committee would like to express its great appreciation to Mr. Boamah for serving as a member for five years and for his leadership as chair of the Committee for the last three of these years

39. The Committee's record of attendance at AAC meetings during 2015 is summarized below:

Name	March 2015	July 2015	December 2015	Comments
Mr. Charles Boamah	Attended	Did not attend	N/A	Mr. Boamah's AAC term ended in October 2015. He was not able to attend the July 2015 meeting, which was chaired by Ms. Mary Ann Wyrsh.
Ms. Mary Ann Wyrsh	Attended	Attended	Attended	Current Chair, Member since 2011. Reappointed for service until 2016.
Mr. John Fitzsimon	Attended	Attended	Attended	Member since 2011. Reappointed for service until 2016.
Mr. Alan Siegfried	Attended	Did not attend	Attended	Member since May 2012. Reappointed for service until 2017.
Mr. Lesedi Lesetedi	Attended	Attended	Attended	Member since February 2013. Reappointed for service until 2016.
Mr. Kamlesh Vikamsey	N/A	N/A	Attended	Member since October 2015. Reappointed for service until 2018

N/A = Not applicable.
