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Office of Internal Audit and Investigations

# Report on the Internal Audit of the UNICEF Regulatory Framework

DECEMBER 2023

Report 2022/24

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# EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the Regulatory Framework – specifically, the development and management of regulatory instruments that govern UNICEF programmatic and administrative operations. The audit was conducted from June to August 2023 in conformance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors. The overarching objective of the audit was to assess the adequacy and effectiveness of the governance and control processes in place to ensure the development and management of regulatory contents that best support the efficient and effective achievement of the work of the organization. Effective management of risks to the effectiveness of a regulatory framework is particularly critical given UNICEF's complex structure, which includes diffuse accountabilities for interrelated and interconnected business processes designed to deliver on its complex mandate.

## Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management or control processes were **Partially Satisfactory, Improvement Needed,** meaning that the weaknesses or deficiencies identified were unlikely to have a materially negative impact on the performance of the audited entity, area, activity or process.

| | |
|---|---|
| | **Satisfactory** |
| → | ***Partially Satisfactory, Improvement Needed*** |
| | ***Partially Satisfactory, Major Improvement Needed*** |
| | **Unsatisfactory** |

## Summary of Observations and Agreed Actions

OIAI noted that the formalization of the procedure on the development management of regulatory instruments and the establishment of templates, coupled with the establishment of a central repository of regulatory instruments, increased awareness among Business Owners (heads of Headquarters Divisions) on good business practices on the development and management of regulatory instruments. The audit team also made four observations related to the adequacy of the procedures put in place to govern the development and management of regulatory instruments. The main observations are summarized below:

- **Governance of the development of regulatory documents**: The UNICEF Regulatory Framework appropriately assigns responsibility for approving and issuing policies to the Executive Director. However, the audit team did not find adequate evidence of Executive Director's actual involvement in the identification and prioritization of the need for or development of policies and procedures. It was not clear whether and how the Executive Director was made aware of the necessity and rationale for new policies, including the policy gaps and risks that needed to be addressed by the policies, potential overlap or inconsistencies among policies and potential challenges to implementation. Additionally, while the Regulatory Framework appropriately recognizes consultation with stakeholders as a key control to the development of fit-for-purpose regulatory instruments, there was insufficient evidence that the views of stakeholders were effectively sought and incorporated when creating policies, procedures and standards.

- **Change management consideration**: There were indications that policies and procedures were often developed in a manner that made their effective application challenging. Specifically, the audit team noted that: (i) the policies and procedures developed by Headquarters Business Owners generally did not describe the circumstances in which they would not be applicable, nor did they define the criteria for granting exceptions; (ii) the rollout of new policies and procedures often did not include proactive risk management activities such as end-user training, detailed guidance and allocation of resources and formal consideration of the need for customization, and maintenance of new systems, estimate of the time required for compliance, and end-user support; and (iii) in the absence of detailed guidance, end-users have chosen to develop documents such as standard operating procedures, internal memoranda, handbooks, toolkits and toolboxes, which are not governed by the regulatory framework but nonetheless provided step-by-step guidance on the application of the policies and procedures issued by Headquarters Offices. The development of these documents was neither centrally regulated nor did it consistently involve the relevant Business Owners.

- **Monitoring of mandatory and key regulatory contents:** The audit team noted that even though policies and procedures do often include references to the risks that they are meant to manage, there was no process in place to promptly detect noncompliance, systematically collate and analyse exceptions, and generate insights as to the effectiveness of the policies and procedures with respect to those risks. This was a missed opportunity for UNICEF to improve the effectiveness of its regulatory contents as needed.

The table below summarizes the key actions to address the residual risks identified and the ratings of those risks and observations with respect to the assessed governance, risk management and control processes. (See the definitions of the observation ratings in the Appendix.)

| OBSERVATION RATING | | |
|---|---|---|
| **Category of Process** | **Area or Operation and Key Action** | **Rating** |
| **Governance** | **Governance of the development of regulatory documents (Observation 1):** Strengthen governance and controls to ensure proper identification, prioritization and development of regulatory content that best supports the efficient and effective achievement of the work of the organization and promotes clear accountabilities among staff: create a policy governing the regulatory framework, revise the existing Procedure on the Regulatory Framework, and create a centralized policy function with commensurate resources to oversee and enforce conformance with good business practices related to the identification, prioritization, and development of regulatory contents. | **High** |
| **Risk management** | **Change management (Observation 2)**: Implement appropriate measures or strengthen existing ones to ensure monitoring of adherence to mandatory regulatory requirements and systematically collate and analyse end-user experiences; use insights to further improve regulatory contents. Consider assigning this action to a centralized regulatory function if established. | **Medium** |

Management is responsible for establishing and maintaining appropriate governance, risk management and control processes and implementing the actions agreed following this audit. The role of the OIAI is to provide an independent assessment of those governance, risk management and control processes.

# CONTEXT

Regulatory instruments are a critical aspect of UNICEF's internal control framework. They govern and guide the behaviour of staff to ensure they work effectively to achieve UNICEF's strategic goals. Moreover, a robust and effective policy framework is essential to ensuring clear accountabilities across the organization. In a large, complex and decentralized organization such as UNICEF, where ownership and accountabilities for interrelated business processes and the development of the related regulatory instruments are diffused, clear policies and related guidance are critical. The complexities and decentralization of the organization create a heightened risk of incoherent, duplicative and inadequate regulatory content. Ineffective management of those risks can significantly impact the effective and efficient performance of staff, undermining clear accountabilities and consistency in operational and risk management across UNICEF's global operations.

In June 2016, UNICEF issued its Procedure on Regulatory Framework to address a high priority action stemming from OIAI's audit in June 2012 of the Framework for managing policies, procedures and guidance. The Procedure was subsequently revised in September 2021 (PROCEDURE/DFAM/2021/006).

The instruments governed by the Regulatory Framework include policies, procedures, standards and guidance. The Procedure states that those instruments would govern UNICEF programmatic and administrative operations. The Procedure also sets out accountabilities, as well as the guiding principles and processes, for developing and managing these tools. Key elements of the Procedure include:

- Policies are to be issued by the Executive Director and the Comptroller (under authority that is inherent in the Financial Regulations and Rules) to provide the overall framework within which UNICEF operates (both programmatically and regarding administrative or operational matters).

- Procedures and standards are issued by the Business Owners (typically Headquarters Divisions) to provide instructions on how to implement a policy or procedure.

- Guidance is issued by the Business Owners to facilitate the implementation of policies, procedures or standards.

# AUDIT OBJECTIVES, SCOPE AND APPROACH

The overarching objective of the audit was to assess the adequacy and effectiveness of the governance and control processes in place to manage risks that the development of regulatory content would not support the efficient and effective achievement of the work of the organization. The audit scope covered key areas, including the procedures on the development of regulatory instruments, stakeholders' consultation and management of the organizational inventory of regulatory instruments that were selected during the audit planning process based on an assessment of inherent risks.[1] The table below briefly describes the inherent risks in relation to the specific areas covered in the audit.

| RISK AREA | KEY INHERENT RISKS EVALUATED DURING THE AUDIT |
|---|---|
| **Governance of the development of regulatory documents** | Risks to the effectiveness of the regulatory framework may not be adequately managed, resulting in the development of regulatory content that is not fit-for-purpose. Such risks include nonalignment of UNICEF regulatory content with relevant legal obligations, the accountability framework and other organizational commitments, and risk appetite. Controls to effectively manage these risks are particularly critical given UNICEF's complex and decentralized structure, which includes diffused accountabilities for interrelated and interconnected business processes designed to deliver on its complex mandate. |
| **Change management** | Risk to the effective design and rollout of new regulatory contents may not be adequately managed. This would negatively impact staff's ability to implement and comply with regulatory content and thus diminish the effectiveness of the regulatory content. |
| **Monitoring of key regulatory content** | UNICEF's varied and complex operational landscape creates risks to effective and consistent application of regulatory content. If not adequately monitored and managed, risks can diminish the effectiveness of otherwise fit-for-purpose regulatory content and UNICEF may miss the opportunity to appropriately adjust regulatory content, as needed, to increase its effectiveness. |

The audit covered the activities of selected Headquarters Divisions regarding their respective roles in the development and management of policies, procedures and guidance. The audit was concerned solely with the framework for creating policies, procedures and guidance, and did not review the actual content of any policy or set of guidelines. The audit was conducted from June to August 2023 in conformance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors. For the purpose of audit testing, the audit covered the period from January 2017 to December 2023. The audit involved a combination of methods, including interviews, document review and evaluation of the adequacy of the existing controls.

[1] Inherent risk refers to the potential adverse event that could occur if management takes no actions, including internal control activities. The higher the likelihood of the event occurring and the more serious the impact would be should the adverse event occur, the stronger the need for adequate and effective risk management and control processes.

The key areas where actions are needed are summarized below.

## 1. Governance of the development of regulatory documents High

The UNICEF Regulatory Framework Procedure has decentralized the development and management of UNICEF's regulatory documents. Specifically, under the Regulatory Framework Procedure, Headquarters Divisions (hereafter referred to as Business Owners) are responsible for deciding themselves whether and which regulatory documents are needed in their respective areas of accountabilities and for developing those required. Business Owners are also responsible for issuing the procedures and standards themselves and for proposing that the Executive Director issue policies that they develop. The decentralized approach to the management of UNICEF's regulatory framework is similar to five of the nine benchmarked organizations. In the view of the audit team, this decentralized approach requires a centralized function that is independent of Business Owners would ensure effective risk management and development of regulatory contents that best supports the efficient and effective achievement of the work of the organization.

The audit team assessed whether in the current framework there was an appropriate role for the Executive Director in, and adequate controls in place to ensure, effective management of risks to the development of regulatory content that best supports the efficient and effective achievement of the work of the organization. Such risks include the possibility of incoherent, inconsistent, duplicative, and inadequate regulatory content and nonalignment of UNICEF regulatory contents with relevant legal obligations, the accountability framework and other organizational commitments and UNICEF's risk appetite for risks to achieving its corporate objectives. Controls to effectively manage these risks are particularly critical given UNICEF's complex and decentralized structure, which includes diffused accountabilities for interrelated and interconnected business processes designed to deliver on its complex mandate, as well as for the development and management of related regulatory instruments. To be effective, the regulatory framework should move the organization towards a fit-for-purpose business model, while being sufficiently agile to be able to respond to emerging risks and evolving operational needs.

### 1.1 Executive Director's role in the development of regulatory content

Under the Regulatory Framework Procedure, the Executive Director is responsible for approving and issuing nonfinancial operations policies.[2] However, the audit team did not find adequate evidence of Executive Director's involvement in the identification and prioritization of the need for or the development of those policies or procedures. For approximately 60 per cent of policies in the UNICEF regulatory library, there was insufficient evidence that they were even approved and issued by the Executive Director. It was not clear whether and how the Executive Director was made aware of the necessity and rationale for proposed policies, including the policy gaps and risks the proposed policies were meant to address, or any risk of overlap or inconsistency with existing policies and the existing legal framework.

While no clear pattern of executive management's involvement in the development of regulatory instruments in comparable organizations was identified, the audit team noted that: (i) the Senior Executive Team of one benchmarked organization reviews and endorses the pipeline of

[2] Rule 113.3 states that the Comptroller is responsible for the policies with respect to the financial operations of UNICEF and the FRR Rule 102.4 states that the Controller may amplify the Rules through appropriate administrative issuances or directives establishing procedures and instructions. However, the Executive Director has discretion and authority to issue a policy on any subject matter.

regulatory instruments developed following consultations across the organization; (ii) the Executive Committee of another benchmarked organization discusses the development of the policy and allows for interested parties to be included in the discussion; and (iii) the development and management of regulatory instruments in most benchmarked organizations are governed by policies issued by the respective heads of those organizations. In contrast, the current Regulatory Framework Procedure that governs the development of all regulatory instruments, including the policies issued by the Executive Director of UNICEF, was developed and issued by DFAM. Under the current Regulatory Framework, Business Owners control the development of procedures. They also control how the procedure are utilized by providing guidance, supporting end-users, granting exceptions to the procedures. Thus, as issuer of the current Regulatory Framework Procedure, DFAM and not OED is vested with the authority to control the development of all regulatory instruments, including the policies issued by the Executive Director. It is the view of OIAI that the Executive Director or the Office of the Executive Director is better placed to ensure that policies focus on broader organizational commitments to good business.

### 1.2 Prioritization of the development of policies and procedures

The determination of the need for new regulatory content needed improvement to ensure new proposed content is consistent with the broader organizational regulatory framework and that broader corporate-wide interests are adequately taken into account.

The Regulatory Framework states that the sources of information for new policies and procedures include General Assembly and Security Council resolutions, Executive Board decisions, Global Management Team recommendations, findings from audits, evaluations, and risk management activities. The Regulatory Framework gives each Headquarters Division authority to review those sources, conclude itself that the proposed policy/procedure content is not already covered under existing policy/procedure and that a new policy would benefit the work of UNICEF without creating unreasonable demands. A Business Owner may, on its own, notify the corporate Policy Specialist in DFAM about their decision to develop a new policy, with no requirement for the Specialist to question the decision. It thus gives individual Business Owners singular authority for determining whether and which regulatory instruments they deem are needed. There is little to no oversight to confirm such decisions by an individual business owner will promote efficiency and effectiveness, serve the broader interests of the organization and are consistent with existing regulatory content developed by other decision.

### 1.3 Development of policies and procedures

The process for the development of new regulatory content needed improvement to provide reasonable assurance that the underlying risks were effectively managed.

The current Regulatory Framework appropriately recognizes the need for consultation with stakeholders, including other Business Owners and end-users, as a key control to mitigate the risk of incoherent, inconsistent, duplicative and inadequate regulatory content, compliance with relevant legal obligations, other organizational commitments, and the risk appetite of the organization. Consultations are expected to be held after the draft and final documents were prepared and it was the responsibility of the Business Owners to determine who to consult with. The audit team found that there was insufficient evidence and assurance that the views of stakeholders were effectively sought and incorporated when creating policies, procedures and standards. There were indications that consultations with stakeholders during the development of regulatory instruments were not adequate and effective, as illustrated by the examples below.

- While the audit noted some preference for the creation of non-mandatory regulatory content that sits outside of the regulatory framework and thus unregulated,[3] there has been a proliferation of a range of policies and procedures as opposed to guidance, which may suggest the need for further clarity of the difference between policy, procedures, and guidance. Of the 394 regulatory instruments developed by Headquarters Business Owners, 73 per cent were mandatory policies and procedures and only 27 per cent were guidance. The proliferation of mandatory policies and procedures, coupled with the shortage of detailed guidance, may have both contributed to the widespread compliance culture observed throughout the organization and the proliferation of other documents such as standard operating procedures (SoPs) and toolkits by other offices that are not recognized as business and policy owners in the current Regulatory Framework. Such proliferation of other documents creates risk to the effectiveness of the current Regulatory Framework Procedure. OIAI is of the view that, if prescribed regulatory contents are to be utilized, they must be accompanied by appropriate guidance developed by the developer and owner of the regulatory content.

  Some instruments contain references to several other instruments of the same or lower hierarchy. For example, the Framework Procedure contains references to four policies, seven other procedures and three guidance. Referencing other instruments raises questions about whether the new one is needed and whether the older instruments could have been further developed for much broader application across the organization. Referencing other instruments also created inefficiencies, as an end-user would need to read several other instruments to be able to apply the new ones. It also created risks to effective application. This suggests that there are significant gaps in existing regulatory content that could have been avoided by effective consultations at the time the instruments were developed.

- Some topics were addressed by multiple regulatory instruments. For example, based on discussion with Legal Office, the audit team noted that fraud risk management is covered by several regulatory instruments (two policies, six procedures and four guidance notes). This creates a significant risk of confusion on how the topic is to be addressed, who is accountable and what is expected of staff.

The audit team noted that, as the Business Owner of the Regulatory Framework Procedures, DFAM can either require compliance by Divisions or exempt Divisions from complying with any of the Framework's requirements, including stakeholders' consultations. Additionally, as the Business Owner, DFAM is also empowered to exempt itself from any requirements with respect to the development and management of its own policies and procedures. This creates the perception of limited or no independent quality control over the development of financial policies and procedures that fall within DFAM's remit. Moreover, DFAM is the most prolific issuer and owner of regulatory content. As of 18 April 2023, of 394 regulatory instruments recorded in the regulatory framework library, DFAM was the business owner of 100 (26 per cent) – it owns 19 policies, 66 procedures, two standards and 13 guidance.

Additionally, the audit team was informed that even though many policies and procedures tended to have legal dimensions, the Legal Office's views were not routinely solicited, and it was not made clear at what stage the Legal Office needed to be consulted. The audit team was informed

[3] A recent example of the creation of policy outside of the regulatory framework was the issuance on October 9, 2023 by email of a paper entitled "UNICEF's updated approach to funding from fossil fuel extractives." The paper, described as providing a "position" or "approach" does not indicate how it relates to UNICEF's existing policy on due diligence (PFP/Policy/2016/002). It should be noted that this paper was issued after the close of the collection of information for this audit.

that the Legal Office was involved in the development of new policies and procedures only on an ad hoc basis. Unlike UNICEF, approximately 70 per cent of benchmarked organizations for this audit specifically require their legal offices' involvement in the development of policies and procedures. That said, OIAI noted that the Legal Office is not currently capacitated to perform this function. Thus, even when the Legal Office is asked to review proposed regulatory content on an ad hoc basis, it is not resourced to do so. DFAM claimed that the Legal Office was consulted only when needed and further claimed that not every policy or procedure has significant legal dimensions. However, DFAM did not clarify why such a determination is left to DFAM rather than the Legal Office.

The Regulatory Framework Procedure provides for a corporate Policy Specialist position with some quality review functions. However, the position sits within DFAM, which, as indicated above, is the most prolific issuer of regulatory documents, with no independent oversight mechanism. Moreover, the resources and the role for this function were limited. Regarding the latter, a Business Owner may choose to request the Policy Specialist to conduct a quality review of the final draft to ensure coherence with other business areas and provide input to the final draft. Where such requests were made, there was no evidence of substantive reviews conducted to ensure coherence, consistency with other policies and that adequate consultations with stakeholders were undertaken. The Specialist's review appeared to focus primarily on ensuring that Business Owners complied with prescribed formats rather than substance.

The need for a centralized and appropriately resourced mechanism was underscored by the fact that the understanding and hence the application of the regulatory content and nomenclature varied from one division to another. One division used the term 'policy' for any content of regulatory nature, i.e., content that regulates contractual terms and conditions of service, therefore using it generically for both policies and procedures and guidance. For example, the flexible working arrangements document is referred to as a policy, although according to the nomenclature it is a Procedure. Representatives of another division stated that since it is an operational entity, their understanding is that their regulatory instruments are limited to procedures and guidance only. Staff are then left to determine where in the regulatory hierarchy these documents fall, creating further challenges to consistent implementation.

## AGREED ACTION 1

The Office of the Executive Director agrees to strengthen governance and controls to ensure proper identification, prioritization and development of regulatory content that best supports the efficient and effective achievement of the work of the organization. This should include:

i. Developing a policy issued by the Executive Director that will govern the regulatory framework. Such policy should establish the overall framework within which regulatory content should be developed and managed to ensure all regulatory content reflects the broader organization's needs, risk appetite and strives for operational efficiency and effectiveness.

ii. Revising the current Procedure on Regulatory Framework (PROCEDURE/DFAM/2021/006) to ensure that it provides adequate instructions on the implementation of the new policy described above.

iii. Creating a centralized and independent policy oversight function, possibly within the Office of the Executive Director, with adequate authority and resources to create and implement the policy and procedure described above, including overseeing the identification, development, issuance, monitoring and enforcing regulatory content.

**Staff Responsible:** i. & iii Chief of Staff, OED; ii. Senior Advisor, DFAM
**Implementation Date:** March 31, 2024

## 2. Change management — Medium

UNICEF's varied operational landscape requires careful attention be paid to ensure mandatory policies and procedures are applied consistently and effectively across UNICEF's global operations. Thus, the audit team sought to determine whether policies and procedures were developed in such a manner that ensures they are fit-for-purpose – that there would be minimum need for exceptions – and that any exceptional circumstances for exemptions to their otherwise mandatory application, as well as the potential challenges of end-users, including resource constrains and the needed detailed guidance, were adequately considered.

### 2.1 Circumstances in which policies and procedures may not be applicable

The Regulatory Framework recognizes that there may be limited circumstances when exceptions to otherwise applicable policies or procedures may be warranted. Best practice dictates that such exceptions should be rare and granted only pursuant to consistent corporate-wide criteria applied through a standardized mechanism that ensure consistent application of the criteria. The mechanism should also provide a record of such decision sufficient to allow for adequate monitoring to confirm the exception has been appropriately granted. However, the audit team noted that the policies and procedures developed by Headquarters Business Owners generally did not describe the circumstances in which they would not be applicable, nor did they define the criteria for granting exceptions. There is thus the risk that the exceptions can be granted on an inconsistent and ad hoc basis and policies and procedures may not be considered relevant in most cases.

Failing to describe the circumstances in which regulatory instruments would not be applicable and the criteria for granting exceptions suggest that adequate consideration was not given by the Business Owner regarding the applicability of policies and procedures when they were initially being developed. This appears to have occurred primarily because the Regulatory Framework does not require Business Owners to describe the circumstances in which their policies and procedures may not be applicable. Instead, it gives broad and general authority to Business Owner to grant requests for exceptions from a policy and procedure they developed if they agree that the policy and procedure: (i) does not meet the specific needs of the programming environment of the office; (ii) does not facilitate the mitigation of risk in the environment in which the office operates; and (iii) cannot be complied with at the time of developing, communicating and maintaining the regulatory instruments. There is no provision for oversight or further evaluation of the Business Owner's consideration of a request for an exemption, thus creating a risk of inconsistent outcomes and that corporate-level views, rather than the preference of the Business Owner, will not be adequately considered. DFAM stated that there is a separate procedure for exceptions and that the eGRC system, albeit designed as a risk management, can used to record those exceptions; however, consultations with Business Owners revealed that they were unaware of this capability in eGRC and it is not used for this purpose.

This provision on the applicability of policies and procedures also created the unnecessary burden on end-users to either request exceptions, adapt the policies and procedures to their unique circumstances, or choose to comply with the policies and procedures with significant consequences for organizational efficiencies. This omission in policies and procedures by Business Owners may have contributed to the proliferation of the various forms of guidance developed at field level, often varying from country office to country office, as well as the perception of a compliance culture seen across the organization.

## 2.2 Change management consideration

The audit team sought to determine whether the rollout of new policies and procedures was planned so that their consequences (whether intended or unintended) were properly managed through activities such as training, development of guidance and allocation of resources for the purchase, customization, and maintenance of new systems, estimate of the time required for compliance, and end-user support.

The audit team noted that the risks of ineffective and inefficient rollout of new policies were not adequately managed. This was mainly because there was no specific requirement in the Regulatory Framework for Business Owners or anyone else to ensure effective management of the rollout or the associated risks that may arise when a new policy is implemented.

The Business Owners interviewed confirmed that they did not have formal and structured change management plans and processes, including training, development of guidance and end-user support. In general, end-users, including regional and country offices, were given short timeframes to adopt or transition to new policies and procedures and the guidance for implementation was often issued much later, leading to confusion and different interpretations among offices on how the policy would be implemented and applied. One example of this was the issuance of the new Procedure on Consultants, which was issued and brought into immediate effect on 1 December 2022. The audit team was informed that the timing was exceptionally damaging as it immediately impacted end-of-year contracting and budget savings, caused a lot of confusion, and required terms of reference that were in process but not yet signed to be completely re-written.

Regarding the availability of guidance on the implementation of new policies and procedures, as stated elsewhere in this report, the audit team noted that the absence of guidance on the implementation of new mandatory policies and procedures often contributed to the need for end-users such as regional and country office develop their own SoPs.

The resource implications of implementing new policies and procedures were not adequately assessed and addressed prior to issuance. As a result, there was an elevated risk to the effective and efficient implementation of new policies and procedures. One example of a policy that still faces issues in terms of resourcing is the Personal Data Protection Policy. The audit team was informed that even though this Policy had a one-year implementation timeline, given the absence of adequate resourcing and prioritization within the organization, implementation continues to be extremely fragmented.

## *2.3* Other documents used by staff across UNICEF's global operations

The use of prescribed regulatory instruments is critical to the efficient and effective management of risks to the achievement of UNICEF strategic objectives and compliance with relevant legal obligations, other organizational commitments, and the risk appetite of the organization.

However, end-users of regulatory instruments such as regional and country offices were developing and issuing nonprescribed regulatory documents such as SoPs, workflows, internal memoranda, handbooks, toolkits and toolboxes. In response to a survey conducted for this engagement, four country offices stated that they developed a total of 50 SoPs and internal memoranda. In 2021, the OIAI audit of one country office identified 30 SoPs developed and used by that office. The nonprescribed documents were utilized mainly due to the proliferation of mandatory regulatory instruments without detailed guidance from the Business Owners regarding their use. In this regard, the audit team noted that the nonprescribed documents were often developed to facilitate utilization and provide step-by-step guidance on the application of policies and procedures issued by Headquarters Offices. They were intended to help ensure consistency in quality standards and utilized during the onboarding of new staff.

The audit team observed the tendency of the offices issuing those documents to make compliance mandatory, thus creating confusion around what is truly mandatory and contributing to inefficiencies in implementation of UNICEF's programmatic and administrative activities. The audit team noted that compliance with documents such as the fraud risk strategy and accountability to affected population (AAP) strategy issued by Headquarters Business Owners was widely seen as mandatory across UNICEF, even though those are not among the regulatory documents that are mandated by the Framework Procedure.

Since the development of these documents is neither centrally regulated nor are the relevant Business Owners routinely involved, there remains a heightened risk to the effectiveness of regulatory instruments that results from confusion, inconsistency among regulatory instruments, siloed operations across the organization, lack of transparency and ultimately, no accountability for the development and implementation of a regulatory framework that serves the strategic imperatives of the organization.

Senior Advisor, DFAM

## AGREED ACTION 2

DFAM agrees to ensure:

i. Regulatory content, including the revised policy on the regulatory framework described in Action 1 above, describes in sufficient detail the exceptional circumstances in which exemptions to their otherwise mandatory application may be allowed.

ii. An efficient and transparent decision-making process for granting exceptions and for recording, monitoring and utilizing such exemptions to mandatory regulatory content.

iii. Adequate resources, time and attention are given to relevant offices for their implementation of new or revised regulatory instruments.

**Staff Responsible:** Senior Advisor, DFAM

**Implementation Date**: i. & iii March 31, 2024; ii. June 30, 2024

## RECOMMENDED ACTION 1

UNICEF should ensure:

i. Development of procedure that would govern the development of guidance, standard operating procedures and other documents meant to operationalize regulatory content to minimized to minimize risk of their nonalignment with otherwise mandatory regulatory content.

ii. Visibility by a centralized policy oversight function (if established) into the development of guidance, standard operating procedures and other documents meant to operationalize regulatory content to minimize duplication and inconsistency and enhance efficiency and effectiveness.

## 3. Monitoring of mandatory and key regulatory contents — Medium

There must be a mechanism for generating insights as to the effectiveness of the policies and procedures with respect to the risks that they are meant to manage and utilizing such insights to adjust such policies and procedures, as needed, to further enhance management of those risks.

The audit team noted that policies and procedures do consistently include references to the risks that they are meant to manage. However, there was no process in place to promptly detect noncompliance, systematically collate and analyse exceptions, and generate insights as to the effectiveness of the policies and procedures with respect to the risks that they are meant to manage. DFAM stated that there is a process to collect and analyse exceptions; however, evidence of this was not shared with the audit team. None of the Business Owners interviewed for this audit had a monitoring mechanism. OIAI noted that in the maintenance phase of the regulatory cycle, the Business Owner is alerted by DFAM when a mandatory review of a policy and procedure is imminent. The Business Owner also is expected to assess the continuing relevance of regulatory contents, consider organizational feedback mechanisms (e.g., audits, evaluations, risk assessments, etc.) and update the policy or procedure as appropriate. There was insufficient evidence of these limited requirements being met. The audit team noted that these requirements also are inadequate to generate a level of insight that Business Owners would generate from a well-designed monitoring mechanism. This is because the purpose of organizational feedback mechanisms such as internal audits is not to assess compliance with policies and procedures. These feedback mechanisms are not meant to substitute for Business Owners' assessment of compliance with the policies and procedures.

### RECOMMENDED ACTION 2

UNICEF should establish and implement appropriate measures or strengthen existing ones for monitoring use of and adherence to mandatory regulatory content and for collating and analysing end-user experience, and using insights generated from monitoring to further improve regulatory content and ensure it is promoting efficient and fit-for-purpose operations world-wide.

## 4. Management of regulatory documents — Medium

Policies and procedures should be archived in an easily accessible and user-friendly manner and should be accessible to all relevant stakeholders, internal and external, as appropriate, in line with the organization's information disclosure policy.

UNICEF's Regulatory Framework Library (RFL) is the source of reference for UNICEF regulatory content for all staff. As of 18 April 2023, it included 394 Regulatory Instruments, including 65 policies, 196 procedures, 26 standards and 107 guidance. The audit team reviewed this library and noted the following:

- A total of 199 of 286 mandatory regulatory instruments under the control of UNICEF[4] (69 per cent) had a review date that was overdue or was obsolete. This poses a risk that the regulatory instruments governing the operations of UNICEF have not been adapted to the current operating environment, and therefore, the risks involved may not be fully mitigated. Business Owners interviewed indicated that they did not have sufficient resources/capacity to implement the mandatory review timelines they committed to. There is no centralized function to review and update existing policies and ensure they continue to be appropriate and necessary to ensure the success of UNICEF's broader global strategy.

- The content of the RFL included some documents whose content was not regulatory, and at the same time, there were regulatory instruments that were not registered in the library. As an example, of one Business Owner's 21 regulatory instruments (RI) registered in the RFL, 20 were not in fact RI. These included advocacy documents, draft documents that were never approved, or annexes to other documents. The same Business Owner had issued guidance notes that were widely used by ROs and COs but were not recorded in the RFL.

- Another Business Owner maintained a set of internal regulatory content outside the RFL. This approach was agreed upon with DFAM; however, this was not documented in the Regulatory Framework Procedure, as it might apply to other business owners.

- Many links contained in the policies and procedures were not working or led to 'not found' pages.

- The RFL is not accessible to external parties, such as NatComs and previous staff members, who might need to access some of its contents.

A RFL that is incomplete or that contains documents that are not regulatory content raises the risk that it does not support effective and efficient management of programme and operation activities.

## RECOMMENDED ACTION 3

UNICEF should ensure that:

i. All the documents in the regulatory library are periodically reviewed and updated to adapt to current organizational risks/needs.
ii. All regulatory content is maintained in the established regulatory library.
iii. The library is a reliable and comprehensive source of regulatory content and content on other sites is not duplicative or inconsistent.
iv. The links contained in the regulatory documents are relevant and lead to correct content.
v. The regulatory library is accessible to all relevant users and stakeholders.

[4] Policies, procedures and standards.

# APPENDIX

## Definitions of Audit Observation Ratings

To assist management in prioritizing the actions arising from the audit, OIAI ascribes a rating to each audit observation based on the potential consequence or residual risks to the audited entity, area, activity or process, or to UNICEF as a whole. Individual observations are rated as follows:

| | |
|---|---|
| **Low** | The observation concerns a potential opportunity for improvement in the assessed governance, risk management or control processes. Low-priority observations are reported to management during the audit but are not included in the audit report. Action in response to the observation is desirable. |
| **Medium** | The observation relates to a weakness or deficiency in the assessed governance, risk management or control processes that requires resolution within a reasonable period of time to avoid adverse consequences for the audited entity, area, activity or process. |
| **High** | The observation concerns a fundamental weakness or deficiency in the assessed governance, risk management or control processes that requires prompt/immediate resolution to avoid severe/major adverse consequences for the audited entity, area, activity or process, or for UNICEF as a whole. |

## Definitions of Overall Audit Conclusions

The above ratings of audit observations are then used to support an overall audit conclusion for the area under review, as follows:

| | | |
|---|---|---|
| **Satisfactory** | → | The assessed governance, risk management or control processes were adequate and functioning well. |
| **Partially Satisfactory, Improvement Needed** | → | The assessed governance, risk management or control processes were generally adequate and functioning but needed improvement. The weaknesses or deficiencies identified were unlikely to have a materially negative impact on the performance of the audited entity, area, activity or process. |
| **Partially Satisfactory, Major Improvement Needed** | → | The assessed governance, risk management or control processes needed major improvement. The weaknesses or deficiencies identified could have a materially negative impact on the performance of the audited entity, area, activity or process. |
| **Unsatisfactory** | → | The assessed governance, risk management or control processes were not adequately established or not functioning well. The weaknesses or deficiencies identified could have a severely negative impact on the performance of the audited entity, area, activity or process. |

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