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Management response to the UNICEF Office of Internal Audit and Investigations 2023 annual report to the Executive Board

Summary

This document presents the management response to the UNICEF Office of Internal Audit and Investigations 2023 annual report to the Executive Board. The report summarizes the various actions that UNICEF has taken to implement the recommendations related to risk areas at headquarters, regional and country offices. It also provides insights into allegations of fraud and misconduct investigated by the Office of Internal Audit and Investigations and the actions taken, including on the recovery of funds lost due to fraud. The document highlights the collective efforts taken by UNICEF divisions and offices to implement the recommendations, including the actions on recommendations outstanding for more than 18 months.

Elements of a draft decision for consideration by the Executive Board are provided in section VIII of this document.

* E/ICEF/2024/10.
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I. Overview

1. This report has been prepared by the management of UNICEF in response to the UNICEF Office of Internal Audit and Investigations (OIAI, or the “Office”) 2023 annual report to the Executive Board (E/ICEF/2024/AB/L.3) and its addendum (E/ICEF/2024/AB/L.3/Add.1). The report includes updates on actions taken or planned by UNICEF management to address the risks and main recommendations identified in the audits undertaken by OIAI during 2023. It also elaborates on the sustained efforts to improve internal controls and the recovery of losses related to reported cases of fraud or presumptive fraud, in line with Executive Board decisions 2018/3, 2019/6 and 2021/4.

2. The internal audit work conducted by OIAI in 2023 concluded that the UNICEF governance, risk management and control processes are adequate and effective to achieve the organization’s objectives. Management welcomes the satisfactory audit opinion, which has been maintained over the past eight years, and is committed to further enhance the UNICEF governance, risk management and control environment.

3. Management welcomes the OIAI affirmation of its independence, including the newly instituted periodic closed briefings with the UNICEF Executive Board and its confirmation that the Office is free from management interference in determining the scope of its internal audits and investigations, performing its work and communicating its results.

4. Management notes that a total of 25 audit reports were issued by OIAI in 2023, comprising 19 country office audit reports, 5 audit reports on thematic and cross-cutting activities and 1 joint advisory report. Of the 19 country office audit reports issued by OIAI, 68 per cent resulted in generally satisfactory conclusions (i.e. “satisfactory”, or “partially satisfactory, improvement needed”), while 5 per cent (one country office audit report) had an “unsatisfactory” conclusion. This demonstrates management’s sustained commitment to improving processes and maintaining a robust control environment.

5. Of the 179 agreed actions contained in the internal audit reports (country office and thematic audits) issued in 2023, 25 per cent were rated as high priority. Management is pleased to note that, while those actions were considered high priority, in the view of OIAI, the identified deficiencies, individually or collectively, are not expected to adversely impact the achievement of expected global outcomes.

6. Management notes that, as at 31 December 2023, 87 per cent of all agreed actions from audit engagements completed in 2022 had been implemented, with only one agreed action outstanding for more than 18 months.

7. Management continues to support offices in ensuring the prompt implementation of OIAI audit recommendations.

II. Public disclosure of internal audit reports

8. Management values the continued public disclosure by OIAI of internal audit reports, pursuant to Executive Board decision 2012/13, with consideration for requests to redact or withhold reports, under certain conditions, from the Executive Director and the Member States. Management supports this disclosure effort, which demonstrates accountability and transparency to stakeholders.

9. Management confirms that, as at 31 December 2023, the 24 audit reports issued in 2023 had been published: 19 for county offices and 5 for thematic audits.
III. Management actions and plans to address the overall internal audit results

10. During 2023, OIAI issued 19 audit reports for country offices and 5 thematic audit reports, with a total of 179 recommendations or agreed actions. Some 150 of the agreed actions resulted from the audits of the country offices while 29 emanated from the thematic audits.

11. Management notes that 25 per cent of the total agreed actions in the audit reports issued in 2023 were rated as high priority and thus requiring immediate action. This is a slight increase from previous years (20 per cent in 2022 and 15 per cent in 2021), nonetheless, in the Office’s view, these deficiencies, individually or collectively, are not expected to adversely impact the achievement of expected global outcomes.

12. Management is pleased to note that 68 per cent of audit reports for country offices were generally satisfactory (i.e. ratings of “satisfactory”, or “partially satisfactory, improvement needed”) with only one audit report rated as “unsatisfactory”.

13. These “satisfactory” and “partially satisfactory, improvement needed” ratings assure management that the relevant controls and processes have generally been established and are functioning as intended, with only minor remediation needed.

14. In implementing Executive Board decision 2017/10 on the prioritization of the implementation of actions in areas of recurring risks, management values the insight from OIAI and notes the two areas for the 2023 reporting period that constitute 91 per cent of all agreed actions from the country offices audits, as follows: (a) programme management – 80 per cent of the agreed actions; and (b) governance and accountability – 11 per cent. The remaining three areas that constitute only 9 per cent of the agreed actions include financial management (1 per cent), human resources (5 per cent) and resource mobilization (3 per cent).

15. Management has sustained its efforts to expedite the implementation and closure of outstanding recommendations. In 2023, the Division of Financial and Administrative Management continued its strategy of close monitoring of outstanding agreed actions and supported offices to follow the agreed plan and promptly implement such actions. These efforts resulted in only one agreed action outstanding for more than 18 months as at 31 December 2023, and this will be completed in the first half of 2024.

IV. Management actions and plans to address the recommendations to country offices

16. Management commends OIAI for the scope of the internal audit activities conducted in 2023, which covered 19 country offices across the seven UNICEF regions. The 2023 country office audit coverage exceeded those of 2022 and 2021 (16 each for 2022 and 2021).

17. Management prioritizes the implementation of agreed actions from OIAI audits and will continue to support offices to ensure agreed actions are promptly carried out. Management notes that a significant number of outstanding recommendations (76 per cent) had been open for less than 12 months by the end of 2023 and that efforts are being made to ensure their timely implementation.

18. Further, most of the audit reports for country offices (13 out of 19) were issued in the second half of 2023 and accounted for 73 per cent of the 150 agreed actions in 2023. There are already plans to carry out these recommendations and the agreed
actions are being implemented. The following section summarizes the actions being taken.

A. Programme management

19. Management notes that actions related to programme management represented 80 per cent of the total of 150 agreed actions from country offices audited in 2023.

20. Management acknowledges that the key observations and actions stemming from audits of country offices in 2023 related to implementing partnerships and distributing programme supplies, and it appreciates the attention given by OIAI to the adequacy and effectiveness of these areas.

21. UNICEF will continue to implement the new country programme management package, which will help country offices to achieve the outcomes set out in the UNICEF Strategic Plan, 2022–2025. The package covers country programme planning, annual management plans, organizational performance management and programme implementation and monitoring, and simplifies procedures, guidance and tools.

1. Implementing partnerships

22. Management is pleased to report that the UNICEF digital platform is being enhanced to facilitate a robust monitoring and reporting mechanism, including the timely scheduling, conduct and improvement of assurance activities. This will help to improve the assessment of the risks in collaborating with partners and adjusting assurance plans and activities, where necessary.

23. UNICEF relies on two approaches for selecting civil society partners: open selection (competitive process) and direct selection. While open selection is the preferred approach, there are also situations where direct selection may be more appropriate, such as in cases where a civil society organization has been identified as the only partner with the required technical expertise or geographical presence to implement a programme intervention. Regardless of whether an office chooses open selection or direct selection, the purpose is to identify those civil society organization partners that provide the best comparative advantage in the joint development and implementation of a programme intervention.

24. Management notes that the country offices for which the recommendations were made regarding selection methods for civil society organizations are working to enhance the use of open selection, where feasible. For example, one of the affected offices has systematically adopted the open selection method, calling for expressions of interest in the United Nations Partner Portal, with additional efforts made to improve the partnerships with civil society organizations in that country.

25. Additionally, management has recently enhanced and added additional features to the eZHACT 2.0 tool, making programme management more efficient. Training has been conducted globally to help staff members to better understand the links between the electronic programme document and the eZHACT 2.0 application, which simplifies the cash transfer system and provides end-to-end management of the harmonized approach to cash transfers transactions. These efforts will help to manage the risks raised in some of the county office audits.

2. Distribution of programme supplies

26. Management notes that most programme supplies are procured centrally by the UNICEF Supply Division and that country offices work with, and through, governmental organizations and international and local civil society organizations to distribute them to the intended beneficiaries.
27. Management welcomes the identification of areas for improvement relating to the tracking of supplies once they are transferred to partners, and will work with affected offices to mitigate the risk of the loss and diversion of supplies.

28. Some of the affected country offices have planned ways to secure approved distribution methods and agreements with implementing partners and to enhance the assessment of the partners’ warehouse and logistics capacities, prior to transferring programme supplies. Partners are also being supported with training on improving their inventory records and warehousing. As recommended for one of the audited offices, a standard operating procedure on the management of the supply chain has been developed and shared with the relevant partners, with provisions to manage the identified risks. In another office, a comprehensive warehouse assessment has begun for all implementing partners receiving significant quantities of supplies.

29. Further, end-user monitoring processes have been enhanced to ensure that programme supplies reach the intended beneficiaries.

B. Governance and accountability

30. UNICEF has an anti-fraud strategy that offices use to assess and manage fraud and corruption risks. Management welcomes OIAI acknowledgement that, based on the audits conducted in 2023, country offices had achieved varying degrees of progress in implementing the strategy effectively.

31. In some of the offices audited, OIAI noted opportunities for further improvements related to fraud risk management and enhancing staff awareness and training. Management acknowledges the areas identified for improvement and is working with the affected offices to implement the agreed actions.

32. Management is taking steps to strengthen fraud risk management and to address identified weaknesses to deter and prevent fraud in the organization. These efforts, include, among others, the reinforcement of internal controls, transaction-level monitoring and the periodic training of staff and implementing partners to ensure they can effectively fulfil their accountabilities for fraud prevention, detection and reporting.

V. Management actions and plans to address the recommendations of the thematic audits

A. UNICEF regulatory framework

33. Management acknowledges the importance of adequate regulatory instruments in ensuring an effective internal control framework in a decentralized organization such as UNICEF. It also welcomes the suggested actions stemming from the OIAI audit of the regulatory framework.

34. Management has begun drafting a policy on the regulatory framework, which will be issued by mid-2024, with a revised procedure on the regulatory framework and a new procedure on the management of exceptions. Moreover, management is further strengthening a centralized regulatory framework secretariat to better support the identification, prioritization and development of policies and procedures and consultations with stakeholders. The secretariat will be charged with the quality assurance of regulatory framework instruments, including the management of overlap and the avoidance of inconsistencies.
B. Public Partnerships Division

35. Management welcomes the outcomes of the audit of the Public Partnerships Division (PPD) and is pleased to report that management has begun updating the relevant policy documents, including the Resource Mobilization Policy (last issued in 2019) in consultation with relevant divisions and headquarters’ stakeholders.

36. Furthermore, once the new UNICEF delegation of authority policy is issued, PPD will formalize the delegation of authority from the Executive Director to the Director of the Public Partnerships Division and will then formalize the terms of delegating authority to other senior UNICEF staff members, including implementing a monitoring system to ensure compliance.

C. Performance management and career development

37. Management welcomes the recognition by OIAI of several positive initiatives that UNICEF has rolled out to create a safe and healthy workplace that is more anchored in its core values.

38. Management notes that some of the recommended actions have been implemented while others are ongoing. For example, after a thorough consultation and review process, management has developed and finalized a performance management vision. This vision makes UNICEF performance management integral to its talent management framework and aims to deliver results for every child by fostering a safe workplace founded on the organization’s core values, where all staff continuously learn, grow, excel and thrive.

39. Management is pleased to report that the management support programme, Managing People with Purpose, was launched in January 2024. The programme aims to reach 6,000 managers/supervisors. The new programme complements other management and leadership training programmes already in place. Some 416 staff are participating in a training-for-trainers programme for those working in human resources.

40. Furthermore, multi-rater feedback for the 2024 performance evaluation, which is linked to UNICEF core values and desired workplace culture, has been developed and embedded in the performance evaluation system.

D. Hosted partnerships

41. Management welcomes the areas for improvement identified by OIAI during the audit of hosted partnerships and can confirm that it has started implementing the recommendations.

42. Management is pleased to report that a working group, comprising the relevant divisions, has been established with the aim of developing a template, as recommended by OIAI, which contains appropriate provisions, commensurate with UNICEF accountabilities and the risks it assumes for hosting a partnership.

43. Furthermore, UNICEF is conducting a review of its partnerships to define clear success and performance goals for engaging in hosted partnerships. It has set up an interdivisional group to manage different aspects of hosted partnerships, including the monitoring of their financial, administrative and programmatic progress.

44. Management notes that bilateral contributions are not standard. UNICEF will define the decision-making process and methods for the exceptional acceptance of bilateral contributions, and the limited conditions under which the organization will accept such funds, including provisions for their disbursement and use.
VI. Management actions on investigations results, financial loss and recovery

45. Management takes note that the number of cases managed increased by 18 per cent from the number in the previous year (912 in 2023 compared with 773 in 2022) and there was also an 18 per cent increase in complaints of misconduct and wrongdoing registered as new cases (512 in 2023 compared with 435 in 2022).

46. Management welcomes OIAI efforts to address the growing number of investigations by piloting the use of options letters to resolve credible allegations in certain types of cases, and by expanding the types of matters referred directly for possible disciplinary action without conducting a full investigation. These efforts will facilitate the timely resolution of cases and allow management to take prompt and necessary remedial actions.

47. The total financial loss on the 10 cases substantiated by OIAI in 2023 related to misconduct or wrongdoing, or both, amounted to $99,398, of which $5,877 has been recovered as of February 2024. These fraud cases occurred in offices operating in very challenging and security-threatened environments. However, management is working with the concerned offices to keep pursuing the recovery of losses and to put mitigating measures in place. UNICEF plans to strengthen its fraud reporting systems to better detect allegations of fraud and the substantiation of fraud allegations.

48. Furthermore, through investigations conducted by independent firms contracted for project-specific cases in the Yemen Unconditional Cash Transfer project, the loss substantiated on fraudulent transactions amounted to the equivalent of $41,891, of which $38,415 (92 per cent) was recovered. The Yemen project management unit’s mitigation measures and response to fraud cases during the implementation of the cash transfer project continue to show encouraging results in terms of recoveries.

49. The communities and beneficiaries of the Yemen Unconditional Cash Transfer project continue to be sensitized about reporting suspected fraudulent activities, with an emphasis on the project’s zero tolerance of fraud and corruption.

50. Management will continue the promotion of ethics, integrity and anti-fraud measures in all its operations in several ways, including through training and awareness-raising. Whenever possible, UNICEF works with other United Nations agencies at field level to train implementing partners, share experiences and lessons learned and enhance the integrity of the partnerships.

Disciplinary measures and other actions taken by UNICEF

51. As noted in its annual report, OIAI is responsible for conducting investigations, while the senior management of UNICEF is responsible for taking any appropriate action based on OIAI findings.

52. Management notes that, in 2023, OIAI referred 36 matters to senior management for the consideration of disciplinary proceedings or other actions. Of the 36 cases, 10 cases were carried over from 2022 and 1 case was received from sources other than OIAI. These matters were acted upon and reported in the UNICEF periodic report on disciplinary measures and other actions in response to misconduct. The specific actions taken in 2023 for 23 cases are summarized as follows:

(a) Sixteen staff members were dismissed or separated from service.

(b) Seven staff members lost steps in grade.

53. Twenty one of the 23 cases involved serving staff members, while 2 cases involved former staff members who had separated from UNICEF during or prior to
the investigation or disciplinary process, and appropriate action was taken to record those cases for accountability purposes.

54. Management continues to take strong action to ensure accountability for current and former staff members, the latter generally being informed that a disciplinary measure would have been imposed had they remained in service.

55. Management places high value on OIAI investigations, which enable UNICEF to take appropriate action against those who are found to engage in misconduct. Management reiterates the organizational zero tolerance for any form of sexual exploitation and abuse and sexual harassment.

VII. Management comments on the UNICEF Audit Advisory Committee annual report for 2023

56. Management welcomes the UNICEF Audit Advisory Committee (AAC) 2023 annual report to the Executive Board and appreciates the advice the Committee provided to the Executive Director throughout the year.

57. Management takes note of the three strategic memorandums issued by the Committee in 2023 and the advice they contain as valuable contributions to enhancing oversight and management practices at UNICEF. It should be noted that the Executive Director formally responds to the Committee on the key advice in these memorandums.

58. Management appreciates the newly introduced summary of advice on key risks, opportunities and noteworthy outcomes in the strategic memorandums and in the 2023 report.

59. UNICEF management appreciates the report on the AAC field visit to the Eastern and Southern Africa Region, including the Regional Office, and the Kenya and Somalia Country Offices, which included valuable observations and key reflections.

60. In line with the AAC Charter, the Committee members regularly interacted with the Deputy Executive Director, Management, the Director of the Office of Internal Audit and Investigations, the Director of the Evaluation Office and the Comptroller throughout 2023, through various channels, as well as other deputy executive directors, and directors of headquarters divisions and regional directors, upon invitation. As part of the Committee’s annual self-assessment, it sought the Executive Director’s feedback on its work and priorities for 2023.

61. UNICEF management appreciates the active engagement of the AAC in management actions to address major organizational issues which, in 2023, included enterprise risk management and prioritizing the issue of key policies and procedures on matters such as the delegation of authority, artificial intelligence, anti-fraud measures, safeguarding, environmental and social safeguards, innovative financing and culture change management. Management welcomed the opportunity to brief the Committee and discuss these issues in AAC sessions.

62. The Chief Risk Officer presented an update on the development of an overarching system for enterprise risk management (E/ICEF/2024/8) at the first regular session of the UNICEF Executive Board in 2024. UNICEF will also present an evolved risk management framework for the Board’s endorsement at the annual session of 2024.

63. Management is pleased to report that a new policy on safeguarding was issued in March 2024. It is harmonized with a forthcoming policy on environmental and social safeguards and sustainability and its companion procedure. The policy and
procedure are expected to be released in April 2024, with a transition period to allow sufficient time for offices to prepare. There will be a phased roll out, starting with country offices already receiving contributions from donors that are requesting assessment and mitigation of environmental and social risks. Guidance and tools, along with a comprehensive training package and community of practice, will support UNICEF staff and partners to implement environmental and social safeguards effectively.

64. Management notes that progress is also being made in designing an integrated complaint, feedback and redressal mechanism, which will be regulated through a procedure that is under development and linked to the environmental and social safeguards and safeguarding policies. The mechanism is expected to be piloted by December 2024, with a phased roll-out over two years.

65. Furthermore, management confirms that the policy design risks that the AAC noted as needing to be managed are being factored into the taxonomy, process design, accompanying digital platform and capacity support to staff and partners. Management notes that the integrated complaint, feedback and redressal mechanism will offer a unified and streamlined approach for offices to receive and manage complaints and feedback, and will therefore be efficient and simple.

66. Regarding the advice from the AAC on culture, psychological safety and trust remains an area of concern and priority for UNICEF as a critical aspect of its culture, especially given the decline noted in the November 2023 Pulse Check. Actions at different levels are needed to ensure that staff feel safe to raise concerns, issues and questions with their managers and/or, with the appropriate organizational reporting offices.

67. Since 2021, data from the Pulse Check on workplace culture surveys have been integrated into the performance appraisal reports of all UNICEF representatives, and is considered during performance discussions between representatives and regional directors.

68. While the increasing number of allegations received by OIAI is a cause for concern, it is also possible to see it positively as a signal of increased awareness and trust in the organization’s reporting and internal justice systems, which were once a recognized weakness in the United Nations system when reporting cases of sexual harassment.

69. Management welcomes the unqualified audit opinion issued by the United Nations Board of Auditors on the financial statements for the year ended 31 December 2022. While an unqualified audit opinion has become the norm for UNICEF, management wishes to highlight the importance of this achievement and the efforts that go into achieving such an opinion. Management is also appreciative of the Committee’s feedback and advice in relation to the UNICEF 2022 draft financial statements and management letters.

70. Management appreciates the valuable insight and advice provided by the AAC throughout 2023 and looks forward to continued engagement with the Committee.

VIII. Draft decision

The Executive Board

Takes note of the UNICEF Office of Internal Audit and Investigations 2023 annual report to the Executive Board (E/ICEF/2024/AB/L.3), its addendum (E/ICEF/2024/AB/L.3/Add.1) and its management response (E/ICEF/2024/AB/L.4), as well as the UNICEF Audit Advisory Committee 2023 annual report to the Executive Board, and welcomes the overall opinion of the adequacy and effectiveness of the organization’s framework of governance, risk management and control.
Annex

Update on open agreed actions older than 18 months as at 31 December 2023

There was one audit recommendation whose implementation was ongoing and remained unresolved for more than 18 months as at 31 December 2023. The recommendation is related to the signing of a tripartite memorandum of understanding to strengthen the management of partnerships. The concerned country office is working towards completing implementation of the recommendation by the second half of 2024.