Update on the context and trends

1. The Office of Internal Audit and Investigations (OIAI, or the “Office”) responded to the coronavirus disease 2019 (COVID-19) pandemic by adapting its operations to fit the needs of this unprecedented Level 3 global emergency. In May 2020, OIAI revised its annual audit workplan and moved exclusively to remote auditing and investigations. The modified plan, approved by the Executive Director, addressed the rapidly changing global landscape and emerging risks to UNICEF. The plan was based on the risk analysis of the Office and feedback from consultations across UNICEF and with the Audit Advisory Committee. Throughout the year, OIAI monitored the effectiveness and challenges of the new ways of working and made adjustments as needed.

2. Circumstances necessitated adjustments to the number of assurance activities and to how audits were conducted. However, in accordance with the Executive Board decision 2015/11, OIAI is pleased to report that based on the scope of work undertaken in 2020, the UNICEF framework of governance, risk management and controls was generally adequate and effective.

3. The Office confirms that during 2020 it was free from management interference in determining the scope of its internal audits and investigations, performing its work and communicating its results.

4. The Office advanced its internal restructuring and reorganization plans, including decentralizing through the opening of an office in Budapest, scaling up of investigations capacity and restructuring the Internal Audit Section. OIAI also completed most of its intended recruitments for the year.

5. The Internal Audit Section of OIAI issued 23 reports in 2020 (17 country office audit reports, 1 thematic audit report, 1 joint audit report and 4 advisory reports). In addition, two internal audits are in the reporting phase. Overall, the Office achieved 82 per cent of the revised 2020 risk-based workplan.

6. Notably, 94 per cent of the internal audit reports issued in 2020 contained conclusions that were generally satisfactory (i.e., either “unqualified” or “moderately qualified”). As of 31 December 2020, there were 15 agreed actions open for more than 18 months. The Office published all audit reports issued in 2020 in conformance with criteria defined by the Executive Board.

7. During 2020, there was not only a move to solely remote investigations but also a transition to a new investigative management team and new structure, with a dedicated intake and policy team and a second investigative unit based in Budapest. In 2020, the Investigations Section handled 520 cases, a 4 per cent increase over 2019. Although the number of new cases initiated (308) declined by 15 per cent and the number of cases closed (253) declined by 12 per cent compared with 2019, the Investigations Section continued to receive a significant number of inquiries, including more than 3,800 emails sent to its hotline.

8. In 2020, the Office revised its office management plan, which included scaling up advisory services; expanding use of data analytics; and restructuring the audit function. Notwithstanding the compelling need to scale up internal audit resources, the revised office management plan was approved without additional allocation of funds, thus limiting the ability to address all emerging risks to its strategic objectives.

9. Responding to recommendations from the United Nations Board of Auditors, the Joint Inspection Unit and external assessments, OIAI has proposed a revised Charter, which is presented in conjunction with this report for endorsement by the Executive Board.
Major contributions and drivers of results

I.) Internal Audit

UNICEF management is responsible for establishing and maintaining effective internal controls, governance and risk management processes to ensure organizational objectives are achieved, and OIAI is responsible for independently assessing the adequacy and effectiveness of such a framework. As a result of the global pandemic, the assurance work conducted by OIAI in 2020 was impacted by the number of assurance engagements undertaken and the necessity of conducting those engagements remotely. Nonetheless, in the opinion of OIAI, based on the scope of the work undertaken in 2020, the UNICEF framework of governance, risk management and controls was generally adequate and effective.

The overall audit opinion for 2020 is based on the following factors:

(a) Risk-based planning and prioritization of assurance activities by OIAI that take into consideration available internal audit resources and the impacts of the COVID-19 pandemic;

(b) Conclusions of the internal audits completed during the year;

(c) Implementation rate of actions agreed to mitigate the risks identified;

(d) Non-discovery in any of the completed audits of material deficiencies in the organization’s overall framework of governance, risk management and controls that might individually or collectively diminish the achievement of significant outcomes globally.

The Office used a risk-based methodology to identify, select and prioritize its assurance activities, directing audit resources towards the areas of greatest risk to UNICEF. During its workplanning for 2020 and 2021, the Office identified a number of additional risks it was unable to address, primarily due to resource constraints. Nonetheless, based on the scope of the work that was undertaken in 2020, OIAI remains able to fulfil the requirement of the Executive Board to provide an overall opinion on the UNICEF framework of governance, risk management and controls.

Using a risk-based methodology, the Office revised its original 2020 annual audit workplan soon after the onset of the global pandemic and moved exclusively to remote auditing and investigations. Inherent challenges posed by fully remote auditing, necessitated by the pandemic, include the absence of in-person interactions and visits to UNICEF field offices, project sites, partners and affected communities, and the absence of access to original documentation. The Office nonetheless substantially mitigated the audit risks created by these challenges by analysing information available electronically or remotely, conducting online interviews of key personnel within UNICEF and with donors and implementing partners, and expanding sources of data and the use of data analytics.

The revisions to the original audit workplan addressed the rapidly changing global landscape and emerging risks to UNICEF identified by OIAI analysis and through consultations across UNICEF and with the Audit Advisory Committee. The revised plan thus put OIAI in a strong position to meet its assurance obligations while at the same time increasing its advisory activities. OIAI issued 23 internal audit reports, which span 17 country offices, one thematic audit, one joint audit and four advisory engagements issued in 2020. As 2020 came to a close, two additional audits were in the reporting phase. The 17 country offices audited account for 29 per cent of the UNICEF allotted expenditure for
country and regional offices in 2020. The thematic audit of the harmonized approach to cash transfers (HACT) relates to cash transferred to implementing partners. In 2019, cash transfers to approximately 9,000 implementing partners totalled $2.2 billion, representing an increase of $200 million compared with 2018 and approximately 35 per cent of total UNICEF expenditure in 2019. The UNICEF Accountability Framework and the UNICEF emergency procedures for COVID-19 response, the subjects of the two of the advisories conducted in 2020, are central to effective and efficient management across UNICEF. The present overall assurance opinion is based on all of these reports.

The Office uses a four-tier scale for distinguishing the conclusions in its internal audit reports – unqualified, moderately qualified, strongly qualified and adverse. The first two represent a generally satisfactory conclusion, while the latter two signify a more urgent need to improve the controls and processes in the audited areas. 94 per cent of assurance activities resulted in generally satisfactory conclusions. This is consistent with the positive trend from previous years. While acknowledging that a firm conclusion on the overall health of the organization’s framework of governance, risk management and controls cannot be drawn from this single metric, OIAI derives additional confidence in these results from the overall breadth of coverage of the audits and the significance of risks involved in the audited operations.

Internal audit reporting by OIAI involves extensive consultations with the management of an audited office or activity, to agree on the appropriate actions that best respond to concerns identified by the audit with respect to risk prioritization and adequacy of controls to mitigate risk. The actions are then rated as high, medium or low priority, depending on the potential impact should the risk materialize. Only high- and medium-priority actions are included in an audit report; low-priority actions are informally communicated to the audited entity. Thirteen per cent of all 166 agreed actions from 2020 audits were rated as high priority. While these actions were imperative to reduce the exposure to higher risks, in the view of OIAI, they were not sufficient to adversely impact the organization’s overall framework of governance, risk management and controls.

A.) Significant results from internal audits of 17 Country office audit agreed actions:

1. Programme management: Actions to mitigate the risks related to programme management represented 52 per cent of the actions agreed by country offices in 2020. These include:
   (a) Planning: Strengthen programme planning through improved alignment of the results chain, early identification of reliable information sources and reduction in data gaps for key indicators; review programme strategies’ alignment with office structure; establish baselines to assess progress against targets and inform management decisions; and enhance the quality and timeliness of the workplanning process;
   
   (b) Partnerships: Develop partnership strategies to promote sustainability of interventions and enhance collaboration with non-governmental organizations; select implementing partners through a competitive process whenever feasible;
   
   (c) Field monitoring: Develop a field monitoring plan to ensure adequate coverage of field monitoring activities; update standard operating procedures to clarify processes and accountabilities of staff regarding oversight of field monitoring activities; and collaborate with other United Nations agencies and partners to reduce data gaps in indicators for the Sustainable Development Goals;
   
   (d) Programme assurance: Review processing of cash transfers to identify root causes of late disbursements; establish a quality assurance process to improve the quality of reports on assurance activities; and enhance practices to ensure prompt resolution of high-priority recommendations from assurance activities;
(e) Donor reporting: Increase assurance over the accuracy of results reported by partners; strengthen the preparation of donor and annual reports to ensure that all key results reported are adequately supported by reliable evidence; and improve the quality review process for donor reports;

(f) Evaluation: Strengthen planning and execution of evaluations and data collection by allocating adequate financial resources and identifying internal capacity gaps.

2. **Governance and accountability**: The importance of effective governance arrangements and accountability and risk management processes in an organization as decentralized as UNICEF cannot be overemphasized. The key actions agreed to in this area were to:

(a) Strengthen identification and prioritization of emerging and residual risks and risk tolerances; adjust risk mitigation measures to address threats and in particular needs generated by the COVID-19 pandemic; ensure controls in place are appropriate to mitigate residual risk; develop a pandemic response tracking system for accountability; and regularly monitor corrective actions;

(b) Ensure an adequate response to prevent, respond to and deter fraud and misconduct and engage OIAI for advice and investigation as appropriate;

(c) Enhance prevention, awareness and responses to sexual exploitation and abuse including through training of staff, contractors and implementing partners; and by establishing reporting and case management mechanisms.

3. **Supply and logistics management**: OIAI assessed UNICEF supply and logistics management, procurement and contracting functions in country offices, noting several good practices as well as areas for improvement. The key actions country offices agreed to were to:

(a) Reinforce procurement planning and forecasting to ensure timely purchase and distribution of programme supplies; assess and support capacity development of implementing partners; increase oversight, support and monitoring of risks in construction projects; and strengthen current end-user supply tracking and monitoring mechanisms to confirm deliveries and obtain beneficiary feedback;

(b) Enhance contract management to minimize extensions and amendments with cost implications; and complete timely vendor performance evaluations.

4. **Resource mobilization**: Evidence-based policy advocacy and resource mobilization is key to raising adequate resources to support children and achieve the objective of the UNICEF Strategic Plan. The key actions country offices agreed to in this area were to review fundraising strategies to identify ways to address funding shortfalls for programme areas; and to enhance consideration of changing contexts (from emergency response to development), including the COVID-19 pandemic.

B.) Significant results from thematic and joint audits

1. **Harmonized approach to cash transfers**: HACT is a mechanism used for transferring cash to implementing partners and other third parties and for managing the risks associated with such transfers. In 2018, UNICEF worked with more than 9,000 implementing partners, channelling more than $2 billion through HACT mechanisms, or about 30 per cent of UNICEF’s total expenditures. Approximately 60 per cent of this amount went to government partners and 40 per cent to non-governmental organizations. The HACT mechanism includes risk assessments of potential partners that are used to determine the least risky way to transfer cash to the partner, as well as the type and frequency of assurance activities to ensure the residual risks of working with the partners are properly
managed. The thematic audit of HACT identified positive observations including the roll-out of the strategy and allocated funding for its implementation, introduction of a digital partnership management system and creation of capacity at headquarters and at regional and country-office levels. The key actions agreed to further strengthen management of HACT were to:

(a) Review the roles, responsibilities and accountabilities for governance and oversight of HACT, particularly in regional and headquarters offices;

(b) Ensure micro assessments are appropriately used to evaluate potential partners and determine the most appropriate cash transfer modality and the frequency and type of assurance activities;

(c) Enhance digitization and establish systems to assess the adequacy of risk management and key performance indicators for assurance activities, and ensure timely and effective evidenced-based follow-up of high priority findings;

(d) Strengthen HACT guidance to staff for execution of and follow-up to assurance activities and improve use of programmatic visits to ensure the effectiveness and efficiency of programme monitoring.

2. Joint report on the United Nations humanitarian response in Yemen: Selected members of the United Nations Representatives of Internal Audit Services issued a report summarizing the results of their individual internal audits in Yemen. The agencies accounted for more than 80 per cent of the funding received by the United Nations for Yemen. The objective of the exercise was to provide assurance of the adequacy and effectiveness of the inter-agency processes and common activities. The report concluded that:

(a) Inter-agency governance and coordination mechanisms needed to be streamlined to minimize duplication of roles between the traditional in-country coordination platforms such as the humanitarian country team (HCT) and new platforms unique to Yemen such as the emergency cell;

(b) While risk management and internal controls were generally established, they could be more efficient and effective through optimizing the collective strength of the United Nations HCT with respect to ensuring accountability to affected populations, managing partnership risk and monitoring programme implementation;

(c) To better assess the impact of the United Nations humanitarian response, the HCT should facilitate an Inter-Agency Humanitarian Evaluation;

Following the audit, the Humanitarian Coordinator agreed to take various actions to improve the efficiency and effectiveness of the humanitarian response in Yemen.

C.) Significant results from advisory engagements: As part of its internal audit practice, OIAI provides independent objective advisory services that involve advice to promote improvements in governance, risk management and control processes. An advisory engagement is not an audit and is not intended to provide assurance on the office or processes reviewed. The demand for advisory services has steadily been on the rise and, in 2020, four advisory engagements were conducted. Advice was rendered on the subjects of the UNICEF Accountability Framework; Risk management process of the Djibouti Country Office; Peer review process by the Latin America and Caribbean Regional Office and the Guatemala Country Office; and UNICEF emergency procedures for COVID-19 response.
II.) Investigations results

Following the Executive Director’s reaffirmed commitment in 2018 to zero tolerance towards sexual exploitation and abuse and sexual harassment, the Investigations Section saw a rapid increase in reporting in this area. In 2020, the Investigations Section continued to receive a large volume of reports. Although the Section initiated slightly fewer cases than in 2019, the volume of inquiries received that required some further review and action was substantial (more than 3,800 emails).

The Office monitors the progress of investigations and flags cases open after nine months. This time frame serves as a guide rather than a target, as having a metric that penalizes keeping cases open for valid reasons may incentivize inadequate investigations, minimization of due process and premature closing of investigations. At the same time, OIAI remains focused on improvements in prioritizing the most critical cases and improving efficiency and effectiveness. In 2020, OIAI closed 192 of 254 cases (75 per cent) within nine months. The average time spent on each case closed was 6.33 months.

Allegations received in 2020 that were opened as cases are categorized by type and the largest category was sexual exploitation and abuse (60 allegations received), followed by inappropriate staff conduct (56 allegations received), with both categories showing an increase from the previous year. The number of cases of alleged fraud involving misuse of programme funds by third parties (e.g., implementing partners, vendors) also increased, with 48 cases.

The Office issued 47 investigation reports and 124 referrals in 2020. Twelve of the 254 completed cases in 2020 were closed because the investigation did not substantiate the allegation. The largest number of closed cases related to prohibited conduct: inappropriate staff conduct (48 cases), harassment and abuse of authority (35 cases), and sexual exploitation and abuse (32 cases). The Office established financial losses to UNICEF from 11 cases amounting to $578,423.

While OIAI is responsible for conducting necessary investigations, the Division of Human Resources or other units are responsible for taking appropriate action based on the OIAI findings. The Office submitted 64 matters to the Division of Human Resources, including investigation reports directed to the Deputy Executive Director, Management, closure memorandums and referrals, for consideration of disciplinary or other action. Disciplinary actions taken as a result of OIAI findings are reported by the Deputy Executive Director, Management, in the UNICEF report on disciplinary measures and other actions in response to misconduct. In 2020, those actions included:

(a) Eleven staff members dismissed or separated from service as a result of disciplinary action following an investigation;

(b) One staff member demoted;

(c) Seven staff members lost steps;

(d) Three staff members were censured;

(e) Three staff members separated from UNICEF prior to any disciplinary process, but who would have been subject to disciplinary action had they remained in service;

(f) Seven staff members reprimanded after it was determined that their conduct had been inappropriate but did not rise to the level of misconduct;

(g) Eighteen cases were not substantiated.
In line with the strategic direction outlined in the OIAI midterm review, the Office reorganized its operating structures and decentralized its offices. Looking ahead, the Office will continue to strive to be a catalyst for improved risk management across UNICEF and will strengthen collaboration with other assurance providers to provide more effective coverage and reduce assurance costs. These actions will serve as the foundation for the office management plan for the period 2022–2025.

The office will focus its future strategic direction on:

(a) Improving risk identification, prioritization and mitigation;

(b) Learning lessons from the impact of the COVID-19 pandemic on the execution of audits and investigations;

(c) Increasing resources to adequately meet the OIAI needs and stakeholder expectations;

(d) Scaling up assurance and advisory services in line with the evolving risk profile of the organization and expectations of stakeholders, with an emphasis on preventing significant assurance gaps;

(e) Leveraging opportunities for reliance on the work of other assurance providers to enhance the assurance provided to UNICEF;

(f) Expanding the use of technology and data analytics to improve risk identification and trend analysis and increase the efficiency and effectiveness of OIAI operations;

(g) Developing operating procedures for fraud investigations, acquiring forensic accounting expertise and leveraging forensic audits to advance fraud investigations involving partners and vendors;

(h) Developing reliable mechanisms to ensure early and efficient resolutions of conflict and possible misconduct;

(i) Including as a focus in each country office audit, among other things, an examination of efforts towards organizational improvement and efficiencies through simplification of processes. This includes an emphasis on confirming that the proposed simplified process still adequately mitigates the risk that the process was intended to address and achieves an acceptable risk tolerance level.