Update on the context and trends

1. In 2021 the Office of Internal Audit and Investigations (OIAI, or the “Office”) continued to effectively deliver its mandate amid the COVID-19 pandemic. This included conducting audits and investigations remotely.

2. The OIAI internal audit workplan for 2021, which was based on a risk analysis conducted by the Office and consultations across UNICEF and with the Audit Advisory Committee, was submitted for approval to the Executive Director. The Office also conducted a midyear review of its initial assurance plan to address the changing global landscape and emerging risks to UNICEF.

3. The Office confirms that during 2021 it was free from management interference in determining the scope of its internal audits and investigations, performing its work and communicating its results.

4. Pursuant to Executive Board decision 2015/11, OIAI reports that, based on the scope of work undertaken in 2021, the UNICEF framework of governance, risk management and controls was generally adequate and effective. The criteria for this opinion include the risk-based audit plans, the results of internal audits and advisory services, the status of implementation of internal audit agreed actions from 2021 and prior years, and the non-discovery of any material deficiencies by the audits completed.

5. The Internal Audit Section of OIAI issued 20 reports in 2021 (16 country office audit reports, 1 thematic audit report and 3 advisory reports). In addition, three internal audits conducted in 2021 were in the reporting phase as 2022 began. Overall, the Office achieved 76 per cent of the revised 2021 risk-based workplan. All of the internal audit reports issued in 2021 contained conclusions that were generally satisfactory (i.e., either “unqualified” or “moderately qualified”). As of 31 December 2021, there were two agreed actions open for more than 18 months. The Office published all audit reports issued in 2021 in conformance with the criteria set by the Executive Board.

6. In 2021, the Investigations Section handled 647 cases, a 24 per cent increase over 2020, primarily attributable to a 23 per cent increase in the number of new cases initiated. The number of cases closed increased by 22 per cent compared with 2020.

7. The strategies for internal audit and investigations for 2022-2025, which are aligned with the UNICEF Strategic Plan 2022-2025, were approved in 2021. With the support of the Executive Board and UNICEF management, OIAI received approval for the majority of the additional internal audit staff resources requested but some staff resources were not approved and OIAI’s non-post resources remain below the level of the previous quadrennium, despite a significant increase in workload. The OIAI office in Budapest became fully operational in 2021. Based on its experience with the Budapest office, OIAI will consider opening a third office in another location or expand the Budapest office.

8. OIAI has analysed the experiences of remote audits and investigations conducted since March 2020, identifying risks, opportunities and lessons learned in order to inform its operating modalities in 2022. The increased maturity of its data analytics programme enabled the Office to gain efficiencies and attain better risk coverage.

9. Pursuant to Executive Board decision 2021/12, OIAI has taken significant steps towards harmonizing its reporting with other United Nations funds and programmes in order to provide a more coherent overview of findings and results.

Major contributions and drivers of results

I) INTERNAL AUDIT RESULTS
1. UNICEF management is responsible for designing and maintaining governance, risk management and control systems and processes to achieve organizational objectives. OIAI is responsible for independently assessing the adequacy and effectiveness of these systems and processes. OIAI also relies on management to proactively identify and communicate materialized risks, potential control failures, irregularities and regulatory non-compliance that could be material to the control environment. Despite the impacts of the COVID-19 pandemic on the Office’s assurance work (described in para.3 below), in the opinion of OIAI, based on the scope of the work undertaken in 2021, the UNICEF framework of governance, risk management and controls was generally adequate and effective.

2. The overall opinion for 2021 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.

3. Owing to the COVID-19 pandemic, all audits were conducted remotely during 2021. This limited the scope of the audits as follows:
   (a) Original supporting documentation could not be reviewed and, therefore, the audit teams relied on digital copies;
   (b) Meetings with the staff and personnel of audited entities were carried out virtually, which could at times limit the understanding of the working environment;
   (c) In-person visits of project sites and meetings with partners, counterparts and local beneficiaries were not conducted;
   (d) Verification of assets and inventory was only performed remotely;
   (e) Safe and petty cash contents were not verified;
   (f) Information and communication technology was not reviewed on-site.

4. The Office used a risk-based methodology to identify, select and prioritize its assurance activities and thus direct audit resources towards the areas of greatest risk to UNICEF. The internal audit reports issued in 2021 cover audits of 16 country offices, one thematic audit and three advisory engagements. As 2021 came to a close, three additional audits were in the reporting phase. The 16 country offices audited account for 29 per cent of the UNICEF allotted expenditure for country and regional offices in 2021. The three advisory engagements also provided assurance in respect of proposed improvements to governance, risk management and control processes. The present overall assurance opinion is based on all of these reports.

5. The Office conducted all its audits fully remotely in 2021. In order to minimize the risks associated with the inability to undertake audits onsite, OIAI analysed information available electronically, conducted online interviews of personnel within UNICEF and expanded the use of data analytics. In many instances, audit teams also interviewed selected donors and partners to validate and corroborate management assertions. In other instances, onsite audit actions were outsourced to independent accounting firms. The 2021 audit workplan was revised to address the rapidly changing global landscape and emerging risks to UNICEF identified by OIAI through consultations across UNICEF and with the Audit Advisory Committee. The revised workplan allowed OIAI to meet its assurance obligations while also increasing its advisory activities.

6. In 2021, 100 per cent of assurance activities resulted in generally satisfactory conclusions. This is consistent with the positive trend in 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.

7. The Office continuously assesses progress by management in taking adequate action to mitigate the risks identified by audits. Overall, efforts are being made to implement agreed actions in a timely way. While it is too early to evaluate the timeliness of implementation of agreed actions in audit reports issued in 2021, OIAI derives confidence from the timeliness of implementation of agreed actions in reports issued in previous years. As of 31 December 2021, 99 per cent of agreed actions from 2019 and 95 per cent of agreed actions from 2020 had been implemented. As of 31 December 2021, two agreed actions had been pending implementation for more than 18 months. The Office periodically shares updates with UNICEF management on the status of agreed actions, and, since 2021, OIAI has maintained a website, accessible to all staff, that reports on open agreed actions.

A.) Significant results from internal audits of 16 Country office audit agreed actions:

1. Programme management: Actions to mitigate the risks related to programme management represented 46 per cent of actions agreed by country offices in 2021. Key actions include:
   (a) Planning: Strengthen programme planning through identification of baseline data and target populations before establishing and mobilizing partnerships for interventions;
   (b) Partnerships: Develop partnership strategies to promote the sustainability of interventions and enhance collaboration with non-governmental organizations; enhance partnership risk management, particularly for partners with high financial risks; and increase open selection of civil society partners to obtain the best value;
   (c) Monitoring: Develop a field monitoring plan to ensure adequate coverage; update procedures to clarify processes and staff accountabilities; review the coverage and quality of work done by third-party monitors; and carry out programme visits to high-risk partners to obtain reasonable assurance of effective programme implementation;
   (d) Assurances under the harmonized approach to cash transfers: Strengthen management of direct cash transfers through enhanced monitoring, quality assurance processes and capacity-building of implementing partners; identify alternative forms of assurance when travel restrictions prevent on-site visits; and carry out programme visits for all high-risk partners to bring assurance risks within acceptable risk tolerance levels;
   (e) Evaluation: Secure sufficient resources to complete timely and essential evaluations;
   (f) Donor reporting: Strengthen preparation of reports to donors by ensuring results reported are accurate and supported by reliable evidence.

2. Governance and accountability: The importance of governance, accountability and risk management in an organization as decentralized as UNICEF cannot be overemphasized. Actions to mitigate the risks related to governance and accountability made up 22 per cent of actions agreed by country offices in 2021. Key actions agreed include:
   (a) Incorporate contextual and situational analysis into risk and fraud assessments; ensure residual risks fall within agreed tolerance levels; and ensure the assurance plan is in line with UNICEF COVID-related emergency procedures;
   (b) Complete ongoing efforts related to the prevention of sexual exploitation and abuse; integrate related questions into the monitoring templates used during programmatic monitoring visits to increase community awareness of the reporting mechanisms available; build the capacity of partners to prevent sexual exploitation and abuse; and ensure that programmatic monitoring visits cover this area for all high-risk partners.

3. Supply and logistics management: OIAI assessed UNICEF supply and logistics management, procurement and contracting functions in country offices, noting good practices and areas for improvement. Actions to mitigate risks related to supply and logistics management made up 11 per cent of actions agreed by country offices in 2021. Key actions agreed include:
   (a) Ensure the timely and accurate recording of supply information and undertake an integrated approach to planning distribution of supplies to support the timely receipt of supplies by end users;
(b) Ensure that programmatic monitoring visits assess the accuracy of supply records and the quality and usefulness of programme supplies.

4. Financial management: Actions to mitigate the risks related to financial management represented 9 per cent of the actions agreed by country offices in 2021. Key actions agreed include:
(a) Review country programme budgets to align activities and results with the planned budget as required by results-based budgeting;
(b) Strengthen management of direct cash transfers through enhanced monitoring, quality assurance processes and capacity-building of implementing partners; and ensure that disbursements are appropriately approved and have adequate supporting documentation to minimize the risks of ineligible expenditures and misuse of funds.

B. Significant results from thematic and joint audits
1. Management of non-governmental implementing partnerships: The OIAI thematic audit focused on country offices’ partnerships with non-governmental organizations. Between 1 January 2019 and 13 October 2021, country offices disbursed approximately $2 billion to civil society organizations and $2.9 billion to government implementing partners. The effectiveness of these partnerships and proper accountability for disbursements to them is critical to the effective and efficient achievement of UNICEF strategic objectives. The key agreed actions resulting from the audit are:
(a) Ensure routine verifications are undertaken by regional offices for assurance that programme documents are aligned with the country programmes and mainstream gender considerations;
(b) Increase the number of partners selected through a competitive process, and strengthen performance monitoring and reporting of partners;
(c) Determine how regional and country offices can improve the quality of programmatic visits and follow up on resulting recommendations;
(d) Provide guidance on efficient and effective ways for country offices to track ineligible expenses that are pending justification or recovery from partners.

C. Significant results from advisory engagements: As part of its internal audit practice, OIAI provides independent objective advisory services 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 2021, three advisory engagements were conducted and advice provided for the following:
1. Enhancement of risk management in the West and Central Africa Regional Office
2. Diversity in contracting at the South Africa Country Office
3. Overtime and danger pay entitlements at the Somalia Country Office

II) INVESTIGATION RESULTS

In 2021, the Investigations Section saw a 23 per cent increase in complaints of misconduct and wrongdoing over the prior year. In addition to the 380 complaints that were registered as new cases, the Section continued to receive a substantial volume of inquiries requiring further review and action. More than 5,000 emails were received on its email hotline. Overall, the Investigations Section managed 647 cases in 2021 (see table 3), including 262 cases carried over from the previous year, 380 new cases opened and 5 cases that were reopened. These 647 cases represented a 24 per cent increase from 2020. Notwithstanding its growing caseload, the Section has sought to improve its efficiency in bringing cases to resolution and closed 310 cases by the end of 2021, a 22 per cent increase from the prior year.

The Office flags matters open after nine months. This time frame serves as a guide rather than a target, as implementing a metric that penalizes keeping cases open for valid reasons can incentivize inadequate investigations, minimizing due process-related considerations, and premature closing of
investigations. At the same time, OIAI remains focused on prioritizing the most critical cases and improving the efficiency and effectiveness of its case resolutions. Out of 310 cases completed in 2021, OIAI closed 182 (59 per cent) within nine months. The average time spent on each case closed was 11 months.

The largest category of such cases was fraud and financial irregularities (152 cases), followed by sexual misconduct (95 cases), with both categories showing an increase from 2020. The increase in sexual misconduct cases (95 compared to 75 in 2020) is primarily attributable to an increase in sexual exploitation and abuse cases involving the staff of implementing partners, specifically (75 compared to 60 in 2020), with the number of sexual harassment cases remaining relatively steady (17 compared to 15 in 2020). There was also an increase in other types of prohibited conduct cases (50 compared to 35 in 2020). The increase in intake in 2021 suggests that the lower intake in 2020 may have been attributable to the impact of the COVID-19 pandemic, although it remains to be seen whether intake will continue to increase in 2022.

The Investigations Section has started tracking cases alleging discrimination according to the type of discrimination alleged. In 2021, OIAI opened 18 such cases, of which 8 concerned allegations of racial discrimination. Other cases alleged discrimination based on religion, ethnicity and other characteristics.

The Office issued 42 investigation reports and 87 referrals in 2021. Twenty-three of the 310 completed cases in 2021 were closed because the investigation found that the allegations could not be substantiated, including a handful of cases where the alleged victim withdrew their complaint and the allegations could not be established through other means. The largest number of closed cases related to harassment, discrimination and abuse of authority (60 cases), followed by fraud involving misuse of programme funds by third parties (49 cases) and sexual exploitation and abuse (43 cases). The Office established financial losses to UNICEF from 23 cases amounting to $1,298,405.

While OIAI is responsible for conducting necessary investigations, senior management is responsible for taking appropriate action based on OIAI investigation reports. In this regard, the Office submitted to senior management 36 matters under paragraphs 21 and 33 of the UNICEF policy on the disciplinary process and measures 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 2021, those actions included:

(a) Ten staff members were dismissed or separated from service;
(b) One staff member was demoted;
(c) Nine staff members lost steps;
(d) Two staff members were censured;
(e) Five staff members separated from UNICEF during or prior to the investigation or disciplinary process, and appropriate action was taken to record these cases for accountability purposes;
(f) Nine cases were found not to establish misconduct.

In terms of non-case specific activities, the Investigations Section provided advisory services and non-investigative support in a number of areas including:

- Advice to UNICEF personnel and management on a wide range of matters raised by senior management and staff concerning possible misconduct and wrongdoing, including alternative measures for resolution
- Detailed input on a number of policy and other organizational initiatives
- Participated in numerous cross-divisional and interagency initiatives focused on the prevention of sexual exploitation and abuse
- Comprehensive analysis of the UNICEF legal and policy framework to identify areas where the
role of OIAI could be clarified or strengthened in relation to allegations of fraud and corruption by implementing partners and vendors
· Communications and training for staff (18 presentations), including by providing an overview of the work of OIAI and presenting on discrete topics, such as fraud and corruption and sexual harassment
Participated in the drafting and review of 24 financing and legal agreements with donors and other parties

Lessons Learned and Innovations

The OIAI strategy for 2022-2025 connects its mandate and mission with the available resources and results framework to deliver high-quality assurance, investigative and consulting services. Under the strategy, OIAI will work to provide increased assurance of risk coverage that is insightful, proactive and promotes organizational improvement by (i) enhancing audit coverage through combined assurance;[1] (ii) further focusing audits on the most significant risks; (iii) expanding the use of consulting services; (iv) optimizing the use of technology and data analytics; and (v) enhancing the effectiveness of communication. Through its investigative work, the Office aims to be a respected trustee and catalyst for an integrity framework that promotes a spectrum of behaviours and remedies that are consistent with UNICEF values, including the most effective and efficient conflict resolution mechanisms and the detection and proactive investigation of fraud.

The Office is committed to increasing the number of staff located outside New York to increase efficiencies and cost savings. It will pursue this in a manner that prioritizes staff morale, ensures business continuity, and maintains the ongoing effectiveness of audits and investigations.

An external quality assessment of the investigations function was commenced in 2021 and completed in January 2022. The assessment found that the investigations function was in conformity with the Uniform Principles and Guidelines for Investigations and complied with the OIAI Charter and other UNICEF legislative instruments. The external quality assessment also identified opportunities for improvement, including recommendations for OIAI to explore options for earlier closure and/or referral of certain complaints of prohibited conduct; take a more active role in investigating allegations of fraud and corruption by vendors and implementing partners; and identify suitable cases for referral to national authorities.

While the global environment will remain uncertain at least through 2022, OIAI expects that opportunities to travel will increase and is developing a strategy to transition to a hybrid approach that will include field travel where necessary and feasible. The approach will be based on an engagement specific assessment of the need for and feasibility of in-person investigative and audit activities, the nature of the evidence required, status of travel restrictions, leveraging communications with field personnel and other locally-based entities, effectiveness of technology connectivity, time zone differences, deployment of tools for reviewing electronic evidence remotely, and evolving guidance from professional standards. OIAI will also remain flexible in its approach, allowing for adjustments that respond to the evolving global context and the needs of each specific engagement. Whatever the approach taken, OIAI will not compromise the quality and timeliness of its work or the health, well-being and safety of staff. Options for engaging third-party consultants or guest auditors to perform on-site work under the remote supervision of OIAI will also be considered.

OIAI has invested in its efforts to better communicate both the nature and the results of its work. This has included the publication of a newsletter highlighting key aspects of OIAI’s work and periodic cross-cutting reports on common themes distilled from OIAI audit reports to broadly disseminate information to help staff identify and address the most prevalent and pressing risks facing UNICEF operations. OIAI also redesigned its audit report template to offer a clearer and more dynamic view of
Mainstreaming the use of data analytics across all aspects of OIAI work will be critical to implementing the Office’s strategy for 2022-2025. Significant progress has already been achieved, including the roll-out of 25 information dashboards for use by the auditors and investigators across a range of priority areas, such as cash transfers, partnerships, procurement, financial management and human resources. These dashboards enable more efficient planning and garner better insights for risk assessment all while operating remotely. Going forward, OIAI will focus on smarter risk intelligence by connecting risk indicators with vast, disparate data sets. This will achieve higher assurance coverage through risk profiling and pattern analysis, testing of potential red flags and continuous auditing of key controls.