Headquarters Divisional Annual Report

Office of Internal Audit and Investigation (OIAI)

Update on the context and trends

1. In 2022, the Office of Internal Audit and Investigations (OIAI, or the “Office”) focused on continuing to expand the value and impact it brings to UNICEF, and to strengthening its role as a trusted adviser to the Executive Director, senior leadership and staff across the organization. The Office strives to build and help to maintain a framework of integrity and robust risk management to ensure UNICEF resources are used efficiently and only for their intended purposes to assist children around the world.

2. The Office confirms that during 2022 it was free from management interference in determining the scope of its internal audits and investigations, performing its work and communicating its results. The Office also responded to Executive Board decision 2022/15 by (a) sharing its assessment on the independence of the Office along with suggestions and pathways to further strengthen its independence, and (b) in August 2022, providing its first closed briefing to the Executive Board.

3. Pursuant to Executive Board decision 2015/11, OIAI is pleased to report that, based on the scope of work undertaken in 2022, 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, and the non-discovery of any material deficiencies by the audits completed.

4. Twenty-seven internal audit reports were issued in 2022. These included 16 country office audit reports, 9 audit reports on cross-cutting activities, and 2 advisory reports. The overall conclusions of 92 per cent of the internal audit reports issued in 2022 were either “satisfactory” or “partially satisfactory, improvement needed”. As at 31 December 2022, no agreed action identified in an audit had been open for more than 18 months. The Office published 23 of the 27 audit reports issued in 2022; 2 advisory reports were not subject to publication; and 2 reports were withheld from publication in conformance with the criteria set by the Executive Board.

5. Pursuant to Executive Board decision 2022/15, this report summarizes key internal control issues from audit findings and the status of investigations in sections IX and XII. It identifies increasing donor conditionalities as a potential risk to the ability of OIAI to exercise its independent mandate, which may warrant the specific attention of the Executive Board.

6. In 2022, the Investigations Section handled 773 cases, a 19 per cent increase over 2021. The number of cases closed increased by 21 per cent compared with 2021.

7. In 2023, OIAI will open an office in Nairobi, its second office outside of New York, and will propose to the UNICEF management a revised methodology to determine the adequacy of future non-post budgets, minimizing the need for discretionary allocations, thus further preserving OIAI independence.

8. The OIAI data analytics programme continued to grow in 2022. This increased operating efficiencies and facilitated higher risk coverage through its development of customized and automated risk assessments and tools for proactive risk identification.
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. The Office is responsible for independently assessing the adequacy and effectiveness of those systems and processes. It 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. In the opinion of OIAI, based on the scope of the work undertaken in 2022, the UNICEF framework of governance, risk management and controls was generally adequate and effective.

2. The overall opinion for 2022 is based on the following factors:

   (a) Risk-based planning and prioritization of assurance activities by OIAI that took into consideration available internal audit resources;

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

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

   (d) The fact that there were no material deficiencies identified in any of the completed audits that indicated the organization’s overall framework of governance, risk management and controls might individually or collectively diminish the achievement of significant outcomes globally.

3. The internal audit work planning process for 2022 was guided by the requirement to develop a risk-based workplan that is flexible and adaptable to emerging risks and maximizes OIAI value to UNICEF efforts to deliver results for children. The workplan provides the basis for OIAI to address a requirement of Executive Board decision 2015/11 to provide an overall assurance opinion on the adequacy and effectiveness of the UNICEF framework of governance, risk management and controls.

4. The 2022 internal audit workplan included 22 engagements spanning 7 country offices, and 11 cross-cutting activities and processes deemed as high risk and 4 country offices deemed as medium risk.

5. The Office exceeded that goal, issuing 27 internal audit reports in 2022, including 16 country office reports, 9 reports on cross-cutting activities and processes and 2 advisory reports. The 16 country offices audited account for 16 per cent of UNICEF allotted expenditure for country and regional offices in 2022. The nine thematic audits and two advisory engagements provided assurance and proposed improvements to concerned governance, risk management and control processes. The overall assurance opinion presented here is based on all 27 reports.

6. A four-tier scale for rating the conclusions in its internal audit reports is used by OIAI. The first two tiers – “satisfactory” and ”partially satisfactory, improvement needed” – signify a generally satisfactory conclusion, or the presence of inconsequential deficiencies. The third tier – “partially satisfactory, major improvement needed” – signifies the presence of weaknesses that could have a materially negative impact on the performance of the audited areas. The fourth tier – “unsatisfactory” – signifies the presence of fundamental deficiencies that require remediation to avoid severe adverse consequences for the audited areas, or for UNICEF, or both.

7. In 2022, 92 per cent of the internal audit engagements completed concluded that the assessed governance, risk management or control processes were satisfactory or partially satisfactory.

8. The Office continuously assesses progress made by management in managing the risks identified by audits. It is still too early for agreed actions stemming from the 2022 audit engagements to be fully implemented, but based on historical performance, OIAI remains confident that management will implement them in a timely fashion. As at 31 December 2022, 100 percent of agreed actions from the
audit engagements completed in 2020 and 86 per cent of agreed actions from 2021 engagements had been implemented. No agreed action had been pending implementation for more than 18 months as at 31 December 2022.

**A) Significant results from internal audits of country offices**

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 UNICEF 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. Advisory reports are not made public. OIAI issued advisory reports in 2022 covering digitization and Afghanistan Country Office

II) INVESTIGATION RESULTS

In 2022, a record number of matters requiring attention by the Investigations Section were reported to OIAI, and OIAI also resolved a record number of matters. There was a 15 per cent increase in complaints of misconduct and wrongdoing registered as new cases (435) over the prior year, representing an increase of 41 per cent since 2020 (see figure III). More broadly, the Section received an increased number of inquiries requiring further review and action. More than 14,000 emails were received on the Investigations Section email hotline, representing an increase of approximately 180 per
cent compared to 2021. Yet staffing levels in the Investigations Section have remained steady over the past several years.

The 773 cases represented a 19 per cent increase from 2021. Notwithstanding its growing caseload, the Investigations Section has significantly improved its efficiencies in bringing cases to resolution. A total of 374 cases were closed by the end of 2022, a 21 per cent increase over 2021.

Whenever possible, OIAI strives to complete assessments within 90 days and investigations within nine months. This time frame serves as a guide rather than a target, given that individual cases may remain open for many valid reasons. It also avoids implementing a metric that could incentivize inadequate investigations, minimize due process-related considerations, or result in premature closing of investigations. The Office remains focused on prioritizing the most critical cases and improving the efficiency and effectiveness of its case resolutions.

In 2022, OIAI issued 54 investigation reports, 79 referrals and 2 investigative advisory memoranda. Seventeen of the 374 completed cases in 2022 were closed because the investigation found that the allegations could not be substantiated. Of the remaining 223 completed cases, 18 were closed after the alleged victims withdrew their complaints or declined to consent to proceed with a formal investigation and the allegations could not be established through other means. In some cases, victims may express concerns about possible retaliation or stigmatization, or the disclosure of their identities on a need-to-know basis. Where possible, interim and/or other measures may be explored to protect victims.

The largest number of closed cases related to sexual exploitation and abuse (75 cases), followed by fraud involving misuse of programme funds by third parties (59 cases) and harassment, discrimination and abuse of authority (49 cases). The Office established financial losses to UNICEF from 17 cases of misconduct, or wrongdoing, or both, amounting to $374,304. These losses generally reflect findings attributable to misconduct, or wrongdoing, or both, and therefore may not reflect the organization’s total losses, such as expenditures determined to be ineligible under contractual agreements with UNICEF. That figure does not include losses to third parties, including those as a result of medical insurance plan fraud, that may be established through investigations.

While OIAI is responsible for conducting necessary investigations, senior management is responsible for taking appropriate action based on OIAI investigation reports. In this regard, OIAI submitted to senior management for consideration of disciplinary or other action, 44 matters under paragraphs 21, 33 and 56 of the UNICEF policy on the disciplinary process and measures. Disciplinary actions taken as a result of OIAI findings are reported by the Deputy Executive Director, Management, in UNICEF’s periodic reports on disciplinary measures and other actions in response to misconduct. In 2022, the Deputy Executive Director, Management, completed a disciplinary process in 33 cases, including 11 submitted by OIAI in 2021. Thirty of those cases involved serving staff members and three cases involved former staff members, who were informed that a disciplinary measure would have been imposed had they remained in service. The disciplinary measures included:

(a) Dismissal or separation from service (18 cases);
(b) Demotion (1 case);
(c) Loss of steps in grade (13 cases);
(d) Written censure (1 case).

In addition to the three former staff members mentioned above, 10 staff members separated from UNICEF during or prior to the investigation or disciplinary process, and appropriate action was taken to record those cases for accountability purposes.

In 2022, the Investigations Section provided advisory services and non-investigative support in a
number of areas, which required a significant investment of resources by management and other section personnel. Those activities included:

(a) Advice to UNICEF personnel and management: Guidance and advice were provided on a wide range of matters raised by senior management and staff concerning possible misconduct and wrongdoing, including alternative measures for resolution. The Investigations Section also issued two advisory reports to senior management in 2022, highlighting systemic risks and control weaknesses in the areas of recruitment fraud and danger pay allowance that it identified through its ongoing work on assessments and investigations.

(b) Policy initiatives: The Investigations Section provided detailed contributions to several policy and other organizational initiatives, including revisions to the standard contractual terms used in UNICEF implementing partner agreements with civil society organizations. The Section also continued to participate in the United Nations Representatives of Investigative Services working group on best practices for addressing harassment, sexual harassment, abuse of authority and discrimination allegations.

(c) Sexual exploitation and abuse and sexual harassment: The Investigations Section supported numerous cross-divisional and inter-agency initiatives focused on the prevention of sexual exploitation and abuse. The Office is responsible for reporting to the Executive Office of the Secretary-General of the United Nations allegations of sexual exploitation and abuse related to UNICEF against an identifiable perpetrator or victim. Staff of the Investigations Section also delivered presentations on sexual exploitation and abuse and sexual harassment to UNICEF personnel and implementing partners in various regions.

(d) Fraud and corruption: The Investigations Section participated in several anti-fraud-related organizational initiatives, including a global risk management workshop, and delivered presentations on fraud and corruption to various UNICEF offices. It has supported a number of policy-related initiatives, such as supporting revisions to the procedures concerning the Vendor Review Committee and procedures governing the blocking of implementing partner vendors, and participating in a cross-divisional working group to develop practical guidance on responding to fraud and corruption.

(e) Communications and training: The Investigations Section expanded its outreach efforts, delivering 31 presentations (compared to 18 in 2021) for staff in country and regional offices as well as for implementing partners. Topics ranged from an overview of the work of OIAI to discrete topics such as sexual misconduct and identification of and responding to allegations of fraud and corruption. The Section also contributed to OIAI broader communication efforts, including publishing an article on informed consent by victims in cases of alleged harassment, discrimination, sexual harassment or abuse of authority in a new newsletter.

(f) Review of provisions in agreements: In 2022, there was a significant increase in OIAI involvement in negotiating agreements with donors and responding to an increasing number of requests from donors for information about investigations and other integrity concerns. The Investigations Section participated in the drafting and review of 35 individual financing and legal agreements with donors and other parties, including international financial institutions, representing a 46 per cent increase in the number of agreements from 2021. The review process, complexity and non-standard nature of these agreements required dedication of substantial resources, which had to be reallocated from investigative activities.

(g) Donor engagement and reporting: Throughout 2022, the Investigations Section participated in numerous briefings, reporting exercises and evaluations requested by bilateral donors and other international institutional partners, and regularly engaged with the investigative offices of those entities in relation to specific cases of misconduct and wrongdoing, in coordination with the UNICEF Public Partnerships Division and country and regional offices, as appropriate. Based on the most recent requests and legal agreements, it is anticipated that the demands for reporting to donors and the
resources that will be needed to meet these demands will continue to significantly increase and may impinge on the ability of the Office to independently execute its mandate.

**Lessons Learned and Innovations**

In 2022, OIAI implemented a strategy for travel and working modality that allowed for a tailored approach on a case-by-case basis. Options for engaging third-party consultants, guest auditors, coordination with other United Nations investigation services to perform on-site work under remote supervision by OIAI also were considered.

The Office publishes periodic newsletters and cross-cutting reports that are intended to provide a wider audience with an overview of common themes distilled from OIAI audit and investigation reports. The redesigned audit report template provides a clearer overview of audit findings and agreed actions.

An external quality assessment of the investigations function, completed in January 2022, 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 Investigations Section issued two advisory reports to senior management in 2022, highlighting systemic risks and control weaknesses in the areas of recruitment fraud and danger pay allowance that it identified through its ongoing work on assessments and investigations.

Based on the most recent requests and legal agreements, it is anticipated that the demands for reporting to donors and the resources that will be needed to meet these demands will continue to significantly increase and may impinge on the ability of the Office to independently execute its mandate.

More than 30 data analytics outputs were developed, providing greater visibility into key risk areas, including cash transfers, supply and logistics, payroll and other financial transactions. Outputs include:

a) A dynamic country risk model with 14 risk data attributes allowing the user to individually assign weights and proactively evaluate country offices’ risk profiles, and
b) Automation of internal audit risk assessments and client survey responses. OIAI also led the creation of an informal oversight data analytics peer network as a forum for knowledge-sharing and learning.