

UNICEF Audit Advisory Committee

2017 Annual Report to the Executive Board

Summary

The present report provides information on the activities of the Audit Advisory Committee (AAC) of UNICEF for the calendar year 2017. It presents an overview of the AAC, describes the key areas of coverage and summarizes the advice given to UNICEF Management during 2017.

Following regular practice, this report is tabled together with the UNICEF Office of Internal Audit and Investigations annual report to the Executive Board.

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I. Executive summary

1. The UNICEF Audit Advisory Committee (AAC, or “the Committee”) is an independent oversight advisory body (without management powers or executive responsibilities) that advises the Executive Director and informs the Executive Board on the conduct of management responsibilities in accordance with policies and procedures inclusive of the UNICEF Financial Regulations and Rules, the United Nations Staff Regulations and Rules and all other relevant directives. The Committee operates in accordance with its Charter (Terms of Reference), which was approved by the UNICEF Executive Director on 9 November 2012.
2. The AAC comprises six members, who are independent from both UNICEF and its Executive Board and serve on the Committee on a pro bono basis. During 2017, membership of the AAC increased from five to six, to respond to the request from UNICEF Management to include oversight of the evaluation function within the scope of the AAC. The continuing members from 2016 are Ms. Lesedi Lesetedi (Chair), Mr. Kamlesh Vikamsey (Vice-Chair), Ms. Amalia Lo Faso and Mr. Jose Urriza. In June 2017, Ms. Saraswathi Menon was appointed to the Committee as the evaluation expert, and Mr. Jayantilal Karia was appointed as the replacement for Mr. Alan Siegfried (whose term of service concluded in December 2017). The Committee would like to express its appreciation to Mr. Alan Siegfried for serving as a member since 2012, and as the Vice-Chair of the Committee between July 2016 and December 2017.
3. The Committee collectively possesses expertise in governance, risk management, internal control, oversight, finance, financial reporting, internal auditing and evaluation. All the members have declared that they do not have any actual or potential conflicts of interest in the exercise of their AAC responsibilities.
4. The AAC recognizes that UNICEF is the only organization specifically named in the Convention on the Rights of the Child as a source of expert assistance and advice on the implementation of the Convention in the areas falling within the scope of its mandate.¹ In undertaking its duties, the AAC is mindful of the contextual environment in which UNICEF is required to: (a) respond and deliver results for children in an effective and efficient manner, with a focus on equity; and (b) respond to several global humanitarian crises, managing interdependencies with partners for results and the aid funding environment.
5. The AAC held three regular meetings in 2017 (April, July and December). For the first time, AAC members visited the UNICEF country offices or National Committees in their respective countries of residence, as well as three headquarters locations outside New York. All AAC meetings had the required necessary participation of the AAC members. (See the annex for the membership and schedule of meetings in 2017.)
6. The Committee met with the Executive Director, maintained continuous engagement with the Deputy Executive Director, Management (as the key management liaison), and also met with the Deputy Executive Director, Field Results and the Deputy Executive Director, Partnerships. Other UNICEF senior staff also made valuable presentations at AAC meetings.
7. The Committee issued memorandums containing strategic advice to the Executive Director, covering key issues mainly related to strengthening (a) enterprise risk management with respect to policies,

¹ UNICEF, Convention on the Rights of the Child webpage, <https://www.unicef.org/crc>.

systems and capacity; (b) the “second line of defense”² and closer monitoring of governance risk and compliance initiatives with respect to the pace of progress and implementation; (c) the performance management systems for the regional and headquarters offices; and (d) cybersecurity, incident reporting and data privacy. These memorandums are appended to the minutes of each Committee meeting. The AAC also provided advice to the UNICEF internal oversight functions, namely the Office of Internal Audit and Investigations (OIAI), the Ethics Office and the Evaluation Office. The AAC was pleased to note that senior management acknowledged these memorandums and provided its perspectives and updates on the advice provided.

8. The AAC shared the results of its 2017 self-assessment with the Executive Director and made some suggestions that can further strengthen its own effectiveness.

II. Mandate of the Audit Advisory Committee

9. The primary responsibility of the Committee is to play an advisory role, without management or executive responsibilities, vis-à-vis the Executive Director, and to inform the Executive Board in fulfilling its governance and oversight responsibilities regarding the:

- Adequacy and effectiveness of governance, risk management, internal controls and financial reporting;
- Actions taken by management on audit recommendations;
- Independence, effectiveness and objectivity of the internal audit, investigations and external audit functions.

During the year, the Committee agreed to the request from UNICEF Management to consider within its workplan the oversight of the evaluation function and the review of the status of implementation of the recommendations addressed to UNICEF by the Joint Inspection Unit.

To ensure that the Committee can discharge its responsibilities more effectively, it is scheduled to present its revised Charter for the new Executive Director’s review and approval in the first quarter of 2018, taking into account its enhanced role (now covering additional responsibilities such as oversight of the evaluation function, Joint Inspection Unit reviews, and the change in membership size.), the expectations of the new Executive Director and current professional standards and contemporary good practices.

III. Audit Advisory Committee workplan and field visits

10. The AAC finalized its first three-year workplan for 2017 to 2019 to guide its activities and meet its responsibilities in accordance with its Charter. The plan has helped the Committee to identify offices mapped to key strategic risks and to assess the degree of engagement required with the relevant offices, to provide advice to strengthen governance and risk management in UNICEF. The Committee has also proposed to UNICEF Management an increase in the duration of the AAC regular meetings in 2018, from

² The “second line of defense” typically includes functions that oversee risk like compliance, comptrollership and risk management.

two to three days per session, to allow adequate time to address the broad scope of its work and provide an enhanced quality of advisory services.

11. The Committee was also pleased to accept an invitation from the UNICEF Management for the members to visit UNICEF country offices in their respective countries of residence; and to collectively visit three headquarters locations outside New York (which covered three headquarters offices as well as one regional office). The AAC met the Director-General of the United Nations Office at Geneva and the Director of the United Nations Development Programme Nordic Representation Office in Copenhagen to discuss inter-agency collaboration. These visits enabled the Committee to obtain a more holistic assessment of the decentralized operations of UNICEF and its inter-agency work.

IV. Summary of the Committee’s activities and advice

12. The sections that follow present highlights of the work performed and advice provided by the AAC in 2017 for the areas of its responsibilities as defined in its Charter.

A. Governance, risk management and internal controls

13. The AAC received updates from the Deputy Executive Director, Management on the key matters discussed by the UNICEF Global Management Team (GMT), as well as the topics considered and decisions adopted during Executive Board sessions. Although the GMT is not a decision-making body, the highest levels of the organization’s senior management are represented on the team. The Committee therefore remains of the view that the effectiveness of the GMT would be pivotal to clarifying macro-level accountabilities, reviewing the organization’s risk management and exposures, and promoting a culture of transparency and knowledge-sharing to help to achieve effective and sustainable results.

14. The Committee reviewed the functioning of the UNICEF oversight system, including internal and external audit, as well as the Evaluation Office and the Ethics Office. During 2017, the Committee also met with the Office of the Ombudsman for United Nations Funds and Programmes. The results of the Committee’s review of these areas is presented in section IV (B) of this report.

15. **Strategic priorities:** The Committee reviewed Management updates on key organization-wide strategic priorities and provided advice in the following areas:

(a) **Strategic Plan, 2018–2021:** The Committee was regularly updated on the progress of the development of the UNICEF Strategic Plan, 2018–2021, and was pleased to note its approval (together with the Integrated Budget, 2018–2021) by the Executive Board in September 2017.

The Committee advised UNICEF that its offices around the globe should absorb, contextualize and integrate the organization’s overall strategic direction and objectives within their respective operating environments, national priorities, partnerships and office and staff performance management plans, to ensure coherence in achieving results.

(b) **United Nations reform agenda:** In early December 2017, the Committee received a status update on the reform agenda of the United Nations. At the time of that meeting, the report of the Secretary-General was due to be finalized and subsequently further discussed by the Secretary-General with the Member States.

The Committee advised UNICEF to closely review the actual implications of United Nations reform for UNICEF (including the impact on implementation of the Strategic Plan, 2018–2021, if any) and formulate response strategies.

(c) **Resource mobilization and partnerships:** The AAC was briefed on the public sector resource mobilization outlook, considering the immediate and potentially longer-term effects of key external macroeconomic and political developments. It also discussed the key opportunities and risks in resource mobilization and partnerships, including the donor base, funding predictability, foreign exchange fluctuations and hedging, and timely dissemination of credible donor intelligence. The Committee was also briefed on the potential for accelerated private sector fundraising growth, the role of the UNICEF National Committees, making investments to raise funds and systems of risk management.

The Committee advised UNICEF that:

- *The exploration and pursuit of the new opportunities for raising funds for the children of the world should commensurately consider the corresponding risks and mitigation thereof, especially as relates to the ethical challenges in fundraising and revenue forecasting; and*
- *More timely actions are to be taken in implementing a 2013 internal audit recommendation on issuing a revised policy for resource mobilization that formalizes the accountability framework, given the strategic importance of the resource mobilization function and its critical influence across the organization.*

(d) **Accountability and results-based management:** The Committee held discussions with a regional office (the Europe and Central Asia Regional Office; as part of its first field visit) to obtain a better understanding of their accountabilities, which include strategic leadership, performance monitoring and oversight, quality assurance, talent and leadership development, risk management and other areas. The Committee received briefings on multi-country evaluations completed in the region and the regional response to the refugee and migration crisis, and had discussions on stakeholder engagement, structural bottlenecks and challenges in data collection and measuring results with two countries in the region.

The Committee found this engagement to be extremely useful and is considering increased interaction with the UNICEF regional offices to enable a closer assessment of field operations, results and risks (especially in difficult contexts).

16. The Committee held discussions on topics relating to results-based management, including implementation of the harmonized approach to cash transfers (HACT) in 2017, the results of a global quality review of civil society organization partnerships and an assessment of the Performance Scorecard system for country offices. The AAC took note of Management’s plans for an independent assessment of data quality, shifting from a compliance perspective on HACT to one also focused on the quality of

implementing partnership management, as well as the introduction of scorecards for regional and headquarters offices.

The Committee advised UNICEF:

- *to disseminate the results from global monitoring reviews for field learning and continuous improvement;*
- *to facilitate identification of the most appropriate standard performance indicators for transitioning from historical indicators to also include leading indicators (which will provide early signals for triggering pre-emptive actions);*
- *on the criticality of reliable data in performance scorecards and the importance of the oversight role of the regional office in this context; and*
- *to implement plans for introducing scorecards for regional and headquarters offices, since scorecards have been in place for country offices for two years.*

17. The AAC received an informative update on the situation of children in humanitarian crises and the results being achieved by UNICEF and its partners. A case study on an ongoing emergency response was also discussed with the Committee. In the face of complex and protracted emergencies, there are continuing risks relating to inadequate regular resources, access limitations, stretched human resources capacity and staff security. The Committee also had meetings with the UNICEF Office of Security Coordination (OSC), which provides global support for all aspects related to the safety, security and well-being of UNICEF personnel as well as the security of premises and associated assets.

The Committee advised on the formalization and issuance by UNICEF of its own framework of accountability for security management (clarifying roles and responsibilities), together with simplification of the multiple reporting relationships of OSC.

18. **Enterprise risk management and internal control:** Over the years, the AAC has consistently monitored the UNICEF enterprise risk management (ERM) framework and practice. While recognizing that risk-management actions are undertaken across the organization, in an increasingly complex and interdependent operating environment, the Committee continued to advise on the need for a demonstrable system of near-real-time strategic and operational risk identification, analysis, response and reporting. The matters discussed in this area during the year are summarized below.

(a) **Enterprise risk management:** The AAC was apprised of the ERM maturity progression in UNICEF over the past decade, commencing with efforts to link to the internal control framework, then to institutionalizing self-assessment and reporting and most recently moving towards enhancing efficiency in reporting risks and effectiveness in analysing them (including by distinguishing between strategic and operational risks). Management had identified the key strategic risks that have the potential to limit the full roll-out of the Strategic Plan, 2018–2021 and to more effectively mitigate such risks.

The Committee advised UNICEF to take actions to:

- *issue a revised ERM policy (clarifying responsibilities);*
- *resource the risk management functions commensurately;*
- *implement the planned software tools and systems; and*
- *integrate ERM with performance management and accountability to enable nimble and efficient operationalization of ERM.*

These actions would also enable an objective and holistic assessment of the adequacy and efficacy of ERM. The Committee was informed that substantial progress was expected in 2018 and it looks forward to learning about these developments.

(b) **Internal control framework:** The AAC had in previous years advised UNICEF Management to adopt a statement of internal control that would each year present an overall management assertion regarding the issue. The Committee was glad to take note of plans by UNICEF to prepare for internal control attestation for the 2018 financial statements using the 2013 Committee of Sponsoring Organizations of the Treadway Commission Internal Control-Integrated Framework. A strong risk management system in UNICEF would be a key factor in supporting such a statement. Therefore, the AAC continued discussions on the “three-lines-of-defense model”³, with an emphasis on the second line of defense. Pursuant to advice provided by the AAC in 2016, the Committee was pleased to receive a mapping of the current architecture of the UNICEF second line of defense, referencing its key offices and their respective roles.

The Committee:

- *strongly supports Management’s plans for designing systems and processes for providing an assertion on internal control, to help to strengthen the overall control environment of UNICEF; and*
- *advised Management to operationalize the second-line-of-defense architecture, taking into account the specific but complementary roles and responsibilities of the relevant offices and its linkages with the other lines of defense.*

(c) **Governance, risk and compliance initiatives:** The Committee was pleased to note that UNICEF had rolled out the regulatory framework library, which should help in creating a unifying framework to simplify the policy architecture, enabling easy access and enhancing risk-informed decision-making. The Committee was informed that a common tool for ERM and policy management (i.e., content life cycle and exception management) will be implemented in 2018. There were other governance, risk and compliance initiatives that were at varying stages of implementation, including transaction-level

³ The Institute of Internal Auditors defines “three lines of defense” as a model to provide a simple and effective way to enhance communication on risk management and control by clarifying essential roles and duties. Management control is the first line of defense, various risk control and compliance functions established by management are the second line, and independent assurance is the third.

monitoring, a budget formulation tool and the development and issuance of the organizational anti-fraud strategy (with supporting tools).

The Committee advised UNICEF to closely monitor the pace of progress of these initiatives and to address bottlenecks to realize their intended benefits. Together, these initiatives will advance the cause of business simplification, clarify the “tone at the top” and enhance systems for accountability. The AAC looks forward to further briefings in 2018 on the progress made and results achieved compared to the intended objectives.

(d) **Value for money:** Pursuant to its request in 2016, the Committee was pleased to receive Management’s paper on ‘value for money’.

The Committee advised Management that value-for-money efforts should be leveraged by mainstreaming these principles within UNICEF programmes and management in a simple and effective manner, from the inception of programme development to implementation, monitoring and evaluation. This will also help UNICEF in demonstrating organizational effectiveness for achieving sustainable results at acceptable costs.

(e) **Legal:** The Committee had useful interactions regarding the general nature of legal risks and the legal function within UNICEF.

The Committee requested additional information on:

- *an annual assessment of the “potential liability” from a legal standpoint; and*
- *the robustness of mechanisms for institutional storage of contracts, and checks for ensuring legal clearances for deviations from the approved contract templates or terms and conditions.*

19. Many of the aforementioned initiatives, actions and plans will cumulatively strengthen the UNICEF first and second lines of defense and ensure that the intended benefits materialize across the organization in an efficient, effective and coherent manner.

20. **Enablers:** The Committee engaged with several UNICEF functions that serve as key management and operational enablers that contribute to enhancing organizational efficiency and effectiveness, including:

(a) **Financial management and reporting:** In each of the Committee’s regular meetings in 2017, it obtained financial updates and the status of implementation of the recommendations of the United Nations Board of Auditors. The AAC noted the increased Management focus on review and monitoring of the open audit recommendations. The Committee was also briefed on the future strategic outlook of the Comptroller’s Office, which will focus on six pillars: the internal control framework; strategic business support; resource management; structured finance; financial reporting; and environmental impact. The Committee also took note of key areas assessed, including the treasury function’s internal governance

system⁴; internal controls and oversight, segregation of duties and risk management as well as visibility and cash flow forecasting; policies for hedging and treasury systems.

The Committee advised UNICEF to:

- *implement its planned strategic reorientation of the Comptroller's Office on a timely basis and focus on actively strengthening the organization's second line of defense; and*
- *closely monitor cyberrisks relating to treasury, in view of the major global breaches experienced by other organizations.*

(b) **Global Shared Services Centre:** The Committee had closely followed the progress of the Centre in 2016, following its establishment in late 2015 and settling phase. In 2017, the Committee visited the Centre and was pleased to note the progress made in terms of the volume of processing managed, staffing and monitoring of service standards. The AAC was briefed on the processes managed by the Centre relating to finance and master data management, human resources administration, payroll and the information technology service desk.

The Committee advised UNICEF to devise mechanisms to measure and report on the value generated by the Centre, as originally intended. The Committee also noted that the Centre appeared to be well-positioned to help both the Comptroller's Office and the field offices to contribute to the organization's second line of defense, especially in areas like Management's process mapping of key risks and controls and facilitating process redesign for efficiencies, where necessary.

(c) **Human resources:** The Committee discussed the progress of key reforms in the areas of recruitment, performance management and business partnerships, especially in terms of linkages to organizational goals, cultural changes, delegated authority for recruitment and matrix reporting. The AAC was also updated on the analysis of the results of the 2017 Global Staff Survey. While the Committee was glad to hear about improvements in the areas of performance management, diversity and staff security, there were also challenges in the areas of career and professional development, personal empowerment, work-life balance and an overall lower satisfaction rate among women. The Committee was informed that Management actions were planned for the top five priorities (gender; career and professional development; office efficiency; managerial accountability; and speaking up).

The Committee advised UNICEF to diligently follow-up to ensure that all offices implement the respective action plans (in both letter and spirit), and help to strengthen the culture and standards of organizational management in providing the most favourable environment possible for staff to deliver optimal results. The Committee underscores the significance of an adequate, motivated and skilled

⁴ The Financial Advisory Committee is an advisory body to the Comptroller, which is mandated to render advice on investments, financial policy and procedure, banking arrangements and the types of financial instruments that UNICEF can use.

human resource complement for achieving results, especially in a knowledge-based and service-intensive workforce.

(d) **Information technology:** The Committee received briefings on information and communications technology (ICT) governance, cybersecurity risk management, cloud infrastructure, data privacy and protection, and incident reporting and management mechanisms. The Committee took note of the ICT results update, including a strengthened ICT board; better alignment of ICT functions among headquarters, regional offices and country offices for enabling programme effectiveness; inter-agency collaboration; and off-site data centres.

The Committee advised UNICEF to:

- *provide an analysis on the results of the UNICEF global security vulnerability assessment and actions taken to address weaknesses and residual risks;*
- *provide an analysis of the trends on incidents reported, actions taken, lessons learned and continuous monitoring;*
- *review and assess the robustness of its data privacy and confidentiality architecture (including information on individual donors, beneficiaries and others, considering the European Union's General Data Protection Regulations effective from May 2018), as breaches could be damaging to the reputation of UNICEF as well as to individual sponsors, beneficiaries and others.*

In 2018, the Committee will continue to focus on ICT governance, security and data privacy.

(e) **Supply and logistics:** The Committee visited the UNICEF supply facility and office in Copenhagen, which is the organizational policy lead and centre of excellence for global UNICEF supply operations (including for humanitarian crises). In 2016, as the largest United Nations procurement agent, the office managed a portfolio of \$3.5 billion in supplies and services across 147 countries and areas (including procurement on behalf of Governments). It is also home to the world's largest humanitarian warehouse, with state-of-the-art automated workflows.⁵ The AAC received very useful briefings on the good work being done in the areas of supply chain management (vaccines), influencing markets and products, partnerships, support to emergency response, building national capacities, providing procurement services to national Governments and development partners, and continuous innovations for reducing the costs of delivery.

⁵ *Supply Annual Report 2016*, UNICEF Supply Division, Copenhagen. 2017.

The Committee advised UNICEF to:

review and clarify the longer-term alignment and rationale for the change in the reporting relationship of the Supply Division from Deputy Executive Director, Programmes to the Deputy Executive Director, Field Results;

- *take urgent actions to fill the post of the Director, Supply Division, as the post had been vacant for over a year;*
- *take action to simplify supply policies to make them more effective and easier to apply.*

B. Independence, effectiveness and objectivity of the oversight functions

21. The AAC review of the functioning of the UNICEF oversight system comprises reviews of the effectiveness of the internal and external audit functions, as well as that of the Evaluation Office and Ethics Office. Such review was also informed by interactions with the executives responsible for financial, management and programme accountability. The results of the review of the oversight functions follows.

External audit

22. *Review of the 2016 financial statements and management letters:* The draft 2016 UNICEF financial statements were submitted for review and comment by the AAC in April 2017, following which the Committee provided substantive written feedback and discussed the feedback provided in a regular meeting. The Committee subsequently also received a written response from UNICEF acknowledging and clarifying the AAC comments, and making the necessary changes to the draft financial statements. The AAC is pleased to note that the financial statements received an unqualified audit opinion from the United Nations Board of Auditors.

23. *United Nations Board of Auditors' recommendations:* The Committee reviewed the recommendations of the external auditors that had been accepted by Management as well as the progress on their implementation, and held discussions with the Comptroller's Office and the United Nations Board of Auditors. The Committee was informed in December 2017 that 9 of the 33 outstanding recommendations were associated with audits conducted prior to 2016. Some key open recommendations (from the nine prior to 2016) related to: (i) requiring country offices to apply fully justified budget assumptions in resource estimations for activities in the multi-year rolling workplans; (ii) improving the completion rate of activities under the Integrated Monitoring and Evaluation Plan; (iii) setting quantitative thresholds for projecting staff requirements and reducing the recruitment timeline; and (iv) consolidating an annual integrated budget and including budgeted amounts under each outcome at the appropriate business level. The AAC has been informed that actions are under way to complete the implementation of these recommendations in 2018.

24. *Meetings with the United Nations Board of Auditors:* During its April 2017 and July 2017 meetings, the AAC had private sessions with the United Nations Board of Auditors. The Committee appreciates the candid discussions, emphasizes the importance of that office for independent oversight and looks forward to continued and more frequent interactions with the Board.

Internal audit

25. *Review of implementation of the OIAI workplan:* The Committee was apprised of the progress of the 2017 OIAI workplan at each of its meetings in 2017, and took note of the rationale for the changes made to the risk-based workplan. The AAC reviewed the OIAI Office Management Plan for 2018–2021, which included an estimation of the level of resourcing considered by the office as being reasonable, relative to the work planned to be undertaken (including five new investigator positions).

The Committee advised OIAI after a review of its early draft to present its detailed 2018 work plan, and also advised OIAI (as in prior years) to formulate risk-based workplans that are realistic and achievable and to address vacancy gaps.

26. *Review of quarterly OIAI activity reports:* At each of its 2017 meetings, the AAC reviewed the quarterly OIAI activity reports, paying particular attention to the progress of the workplan, key findings and the status of recommendations from internal audit reports. The AAC noted that the activity reports were comprehensive. The Committee was informed that as at the end of 2017, seven recommendations had been open for more than 18 months. These related to (i) the issuance of revised policies for resource mobilization, the Contracts Review Committee and records management; (ii) the roll-out of the new budget formulation tool; and (iii) the evaluation of the effectiveness and efficiency of the policy on the Conflict of Interest and Financial Disclosure Programme.

The Committee advised:

- *UNICEF Management to take urgent actions for implementing the outstanding audit recommendations older than 18 months; and*
- *OIAI to provide a more in-depth analytical assessment of investigation results.*

27. *Review of OIAI annual report and annual opinion:* Executive Board decision 2015/11 requested OIAI to include in future annual reports “an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization’s framework of governance, risk management and control.” At its first meeting in 2017, the Committee reviewed the OIAI annual report for 2016, including the draft opinion and rationale for its overall conclusions.

The Committee advised OIAI to share its draft annual opinion for 2017, including the basis thereof, against the backdrop of the 2017 request from the Executive Board to OIAI, in decision 2017/10, to provide further supporting analysis for the overall annual opinion in future annual reports.

28. *Public disclosure of internal audit reports:* The AAC also monitored the status update on the publication of internal audit reports. The Committee examined the reasons for the redaction of applicable

internal audit reports and their conformance with the criteria specified in the relevant Executive Board directives.

The Committee advised UNICEF Management and OIAI to continue to focus on ensuring timely and appropriate actions on matters of disclosure of internal audit reports.

29. *External quality assurance of the internal audit function:* The AAC had in its previous annual report expressed its satisfaction that OIAI had completed the implementation actions for all recommendations from the 2013 external independent review of OIAI. The Committee looks forward to the next external quality assessment of OIAI, which is due in 2018.

30. *Advisory support:* The Committee discussed the potential implications and challenges posed by the revised Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and Core Principles for the Professional Practice of Internal Auditing (effective January 2017), especially relating to governance, independence and objectivity, within the unique operating context of the internal audit functions in the United Nations.

The Committee is of the view that it is necessary to obtain a wider consensus on addressing these common issues for the United Nations audit functions through the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS). The Committee awaits the results of the RIAS deliberations for a system-wide position on the subject, together with related proposals for any changes that may be required to the OIAI Charter.

31. *Meetings with the Director, OIAI:* During each of its three meetings in 2017, the AAC had private sessions with the Director, OIAI. The Committee appreciates the candid discussions, emphasizes the importance of that office for independent oversight and looks forward to a continuing constructive engagement in 2018. The Committee also keenly anticipates information on the plans to establish an OIAI office in Budapest, to be resourced with six existing auditor posts and the five new investigator posts.

Evaluation Office

32. The Committee received briefings from the Evaluation Office in two of the three regular meetings in 2017. During the year, the AAC was requested by Management to also extend its oversight to the evaluation function in UNICEF. The first item to be considered was the draft management response prepared after completion of the United Nations Evaluation Group professional peer review of the evaluation function of UNICEF. The Committee was pleased to observe that the peer review had generated considerable rethinking on the evaluation function in UNICEF, including a readiness to prepare a comprehensive revised evaluation policy.

The Committee advised UNICEF, in relation to the peer review:

- *to develop clear and actionable action plans;*

- *to clarify the reasons the Management differed with particular recommendations of the peer review;*
- *on the importance of wider consultations across UNICEF in the preparation of both the management response and the subsequent revised evaluation policy, given the decentralized nature of UNICEF;*
- *to strengthen the UNICEF evaluation function regarding independence, internal governance, provision of adequate financial and human resources and evaluation coverage.*

The Committee is of the view that the Evaluation Office should have a clear role in setting standards and quality assuring decentralized evaluation. The Committee looks forward to the opportunity to comment on the new evaluation policy as it is being developed.

33. The AAC welcomes Management’s proposed new External Evaluation Technical Advisory Panel.

Given the extended oversight role of the AAC on evaluation matters, the Committee recommended that the existing internal evaluation committee be disbanded, thus reducing redundancies and inefficiencies while also enhancing independence.

34. The Committee takes note of the Evaluation Office’s proposed integration of several distinct systems currently used within the evaluation function, to address issues linked to sharing and aggregating information, outdated platforms and cumbersome interfaces. The Committee looks forward to progress on these plans to help to integrate UNICEF systems for planning, monitoring, analysing, reporting and archiving evidence generated by activities such as evaluations, research, studies and reviews. These planned actions should enable UNICEF to derive a comprehensive global picture of all evaluations planned and completed, and therefore facilitate more effective monitoring, oversight and knowledge management.

35. The Committee took note of the Evaluation Office draft workplan for 2018.

The Committee advised the Evaluation Office to:

- *more clearly articulate key issues such as evaluation of humanitarian situations and the implications of United Nations reform; and*
- *consider submitting an independent evaluation of the concluded country programmes to the Executive Board to strengthen the Executive Board’s review of new country programme documents.*

Ethics Office

36. The Principal Adviser, Ethics updated the Committee about the key ethics interventions in 2017, including training sessions and campaigns; contributions to policy formulation in selected areas; and providing confidential advice and guidance to staff on ethical issues. The adviser also apprised the AAC of the lessons learned from the results of the 2017 Global Staff Survey. The Committee was informed about the inherent difficulties in making an overall assessment of the “organizational ethical climate” in an organization as complex, diverse and decentralized as UNICEF, and on a topic as complex and diverse as

ethics. The Committee was, however, assured that the “tone at the top” was admirable and transparent. The speak-up culture was improving, although not always in the most sensitive areas. In most areas, while policies exist, the climate for reporting varies depending on the unique local cultural contexts and challenges thereof. The Committee learned that there had been significant progress from previous surveys, together with increased scope for addressing staff perceptions about accountabilities being reasonably enforced and fair application of global mechanisms for misconduct and protection against retaliation. The Committee also noted that, prior to making its own revisions, UNICEF is awaiting revisions being promulgated in the United Nations for system-wide implementation of the whistle-blower policy.

37. The Committee was informed about plans to conduct the Conflict of Interest and Financial Disclosure Programme’s fit for purpose evaluation (in line with an outstanding internal audit recommendation), which will evaluate the programme’s effectiveness and efficiency and determine whether it is fully achieving its intended objectives. The AAC looks forward to the results of this evaluation, which should help to further strengthen ethical standards in UNICEF. The Committee envisions a key role for the Ethics Office in enabling organizational efforts to strengthen the ethical climate, promoting desired standards of professional conduct and serving as a preventive mechanism for fraud risk management.

38. In addition to the aforementioned oversight offices, the Committee also met with the Office of the Ombudsman for United Nations Funds and Programmes.⁶ The AAC took note of their governance arrangements, efforts to embed mediation competencies within staff and managers through training, and plans for deepening engagement modalities with UNICEF. The Committee was assured by the Office of the Ombudsman that, in their opinion, UNICEF was broadly faring well in the areas covered by its mandate.

C. Reporting to the Executive Director and the Executive Board

Executive Board

39. The Vice-Chair of the AAC attended the 2017 annual session of the Executive Board,⁷ at which the 2016 annual report of the Committee was presented, along with the OIAI 2016 annual report. The Vice-Chair was available to respond to questions or comments from the Board related to the AAC annual report, if required.

Executive Director of UNICEF

40. The AAC submitted a summary of strategic advice to the Executive Director at the end of each of its three regular meetings in 2017, which it hopes provided a focus on the most-pressing subjects arising from each meeting. The minutes of each meeting are also provided to the Executive Director. The Committee also shared the report on its field visits and key reflections from those trips. The AAC appreciated the presence of the Executive Director at its July 2017 meeting and the insights he shared on the organizational strategic outlook and risks. Following the December 2017 meeting, the AAC shared with

⁶ The Office covers five United Nations entities: the United Nations Development Programme, the United Nations Population Fund, the United Nations Children’s Fund, the United Nations Office for Project Services and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women).

⁷ The Vice-Chair was based in the United States and, for reasons of economy, represented the Chair of the AAC at the Executive Board session.

the Executive Director the results of its 2017 self-assessment, which were largely positive, especially in the areas of collective member expertise, independence and openness, leadership, interactions with oversight functions, reporting and secretarial support. The self-assessment also identified areas for augmenting the Committee's effectiveness, including the need to revise its current Charter; mechanisms to solicit the Executive Director's structured feedback on the Committee's effectiveness; and the Committee's active contribution to the appointment, removal and performance assessment of the heads of the internal oversight functions of UNICEF.

United Nations Independent Audit Advisory Committee

41. The second meeting of the representatives of the United Nations system oversight committees, hosted by the Independent Audit Advisory Committee of the United Nations, was held from 12 to 13 December 2017. The meeting was attended by 24 representatives from 19 oversight committees of organizations in the United Nations system, including Ms. Lesedi Lesetedi, Chair of the UNICEF Audit Advisory Committee. The meeting emphasized cross-cutting areas in the United Nations system organizations relating to the need for a common, recognized and credible approach across the United Nations system to risk management, integrated assurance and control, using the "three-lines-of-defense" model; adoption of a recognized and common system-wide cyber-risk management framework fully integrated into the entities' overall approaches to ERM and business continuity; and the need for both Management and the internal oversight functions to regularly assess issues related to the organizational culture so that business transformation efforts can succeed.

V. Conclusions and the way forward

42. The Committee met thrice in 2017 and met its mandate in providing advice to the Executive Director in multiple areas, including governance effectiveness; ERM maturity; and accountabilities and results-based management. During the year, the AAC also submitted its annual report for 2016 to the Executive Board.

43. Since the issuance of its previous annual report, the Committee has recognized the positive steps taken by UNICEF, especially in the areas of closer monitoring by senior Management of the recommendations made by of the United Nations Board of Auditors, which has led to faster implementation; strengthening the evaluation function; preparing a concept paper on value for money; and planning for internal control assertion. The Committee, however, reiterates the need for focused Management attention in operationalizing enterprise risk management; strengthening the second line of defense; and closely monitoring the pace of several ongoing management initiatives and addressing bottlenecks for speedier implementation.

44. The AAC appreciated the opportunity to meet with the Deputy Executive Director, Management at all three meetings in 2017 and is grateful for the support, information and insights shared, especially as the incumbent serves as the most important senior management liaison for the AAC. The Committee is grateful for the time spent with the Executive Director, the Deputy Executive Director, Field Results Group and the Deputy Executive Director, Partnerships.

45. In 2018, the Committee looks forward to meeting with the Deputy Executive Director, Programmes and with additional Regional Directors, as it endeavours to enhance its effectiveness through greater engagement with the organization's activities in the field. Closer interaction with offices involved with

programmes and field results is particularly critical for the Committee to oversee the effectiveness of the evaluation function.

46. The AAC thanks Mr. Paul Manning, Director, OIAI, for his support to its work and for the constructive interaction in 2017. The Committee is also appreciative of the work of all other UNICEF staff members who prepared reports or made presentations at its meetings.

47. Finally, the Committee is also particularly grateful for the professional support it receives from Mr. Sunil Raman, Committee Secretary, OIAI, in managing the AAC secretariat.

Annex

Audit Advisory Committee membership and schedule of meeting attendance in 2017

Member Name	Regular meetings			Comments
	April 2017	July 2017	December 2017	
Ms. Lesedi Lesetedi	Attended	Attended	Attended	Current Chair, Member since February 2013. Second term ends in February 2019.
Mr. Alan Siegfried	Attended	Attended	Attended	Member since May 2012, and Vice-Chair to December 2017. Mr. Siegfried's second term ended in December 2017.
Mr. Kamlesh Vikamsey	Attended	Attended	Attended	Member since October 2015, and Vice-Chair from December 2017 – serving on first term which ends in October 2018.
Ms. Amalia Lo Faso	Attended	Attended	Attended	Member since February 2016; serving on first term which ends in February 2019.
Mr. Jose Urriza	-	Attended	-	Member since August 2016; serving on first term which ends in August 2019.
Ms. Saraswathi Menon	N/A	Attended	Attended	Member since June 2017; serving on first term which ends in June 2020.
Mr. Jayantilal Karia	N/A	Attended	Attended	Member since June 2017; serving on first term which ends in June 2020.

N/A = Not applicable.

Member Name	Field visits	
	Country office/ National Committee ⁸	UNICEF headquarters offices outside New York ⁹
Ms. Lesedi Lesetedi	Attended	Attended
Mr. Alan Siegfried	Attended	Attended
Mr. Kamlesh Vikamsey	Attended	Attended
Ms. Amalia Lo Faso	Attended	Attended
Mr. Jose Urriza	Attended	Attended
Ms. Saraswathi Menon	-	Attended
Mr. Jayantilal Karia	-	-

⁸ Members visited UNICEF country offices (Argentina, Botswana and India) and National Committees (Italy and United States of America) in their respective countries.

⁹ Members visited UNICEF offices in Budapest (Global Shared Services Centre), Copenhagen (Supply Division) and Geneva (Private Fundraising Partnerships Division and Europe and Central Asia Regional Office).